Improving Leadership Capabilities for Young Employees at Kirin

by

Hiroshi Onuki

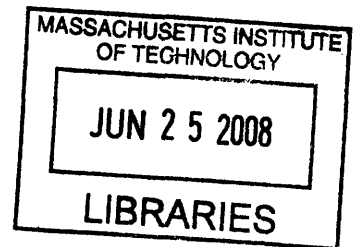B.E., Sophia University
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ABSTRACT

My employer, Kirin Holding Company (Kirin), turned 100 years old in 2007. At the same year, Kirin changed its company structure into a holding company from Kirin Brewery Company Limited. As the former company name indicates, the beer business is Kirin's core business, generating over 70% of Kirin's operating income in 2006. In 2006, Kirin announced its long-term business framework, Kirin Group Vision (KV2015). Under KV2015, Kirin aims for a quantum leap in growth to become a leading food and health company in Asia and Oceania. Kirin aims to boost its sales to ¥3 trillion by 2015, compared to ¥1.67 trillion in 2006, and also aims to generate 30% of its sales and profits from overseas operations by 2015, compared to 18% in 2006. To achieve this target, Kirin must act and manage differently than it did in the past. Consequently, in 2007 Kirin made the largest acquisition it has ever undertaken when it acquired National Foods, one of Australia's largest food companies.

In the dramatically changing the environment within the company, required capabilities for leaders have also changed. In order to nurture new leaders, Kirin's Personnel Department has continually improved the training and education programs for its managers and employees since 2002.

In this thesis, I research the concept of "leadership" using the MIT leadership model, then examine the leader development system at General Electric.

Through the research, I found that leadership experience at an early stage for young employees at Kirin is one way to improve their leadership abilities. I believe using Kirin's subsidiaries as a leadership platform would be one of the approaches.

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Finally, I am very grateful to my wife Rieko, and my children Riho and Alice. I am indebted to their patience and smiles since I started studying to apply to this program in January, 2006. Without them, I would never have reached this point.

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Hiroshi Onuki
Brookline, Massachusetts
May 9, 2008

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CHAPTER 1

Introduction

1.1 Purpose of the Thesis

The Japanese alcohol industry has been changing rapidly. There are several reasons for this: (1) a declining birth rate and aging population; (2) greater diversification of consumer preferences; (3) increased competition among industry players; and (4) the restructuring and integration of major overseas beer manufacturers.

To cope with these market changes, Japanese alcohol companies have responded with various strategies. First they diversified their businesses into "beverage-related" businesses such as soft drinks, fruit juices, and dairy products. Then they expanded into other categories like foods, pharmaceuticals, flowers, and restaurants. Recently, the large domestic alcohol companies have expanded their businesses to markets outside of Japan. Kirin Holding Company (my employer) aims to be one of the leading food and health companies in Asia and Oceania, and this goal was bolstered by its announcement in 2006 of its long-term business framework, Kirin Group Vision (KV2015).

Kirin aims to generate 30% of its sales and profits from overseas operations by 2015, compared to 18% in 2006. Under the new KV2015 policy, Kirin changed its structure to a holding company on July 1, 2007. This shift will presumably lead to increased growth and profits by creating a flexible and dynamic allocation of capital to support overseas growth initiatives, not only in alcohol beverages but also in soft drinks and pharmaceuticals.

Another target for Kirin is to boost its sales to ¥3 trillion by 2015, compared to ¥1.67 trillion in 2006. To achieve this target, Kirin must act differently from the past. Consequently, in 2007 Kirin made the largest acquisition it has ever undertaken when it acquired National Foods, one of Australia's largest food companies.

In the dramatically changing environment within the company, the qualifications, training, and requirements for leaders has also changed. In this thesis, I explore the capabilities required in Kirin's leaders in order to achieve these goals and how to develop and improve leadership within the company.

1.2 Thesis Structure

Exhibit 1.1 shows the structure of the thesis. There are seven chapters.
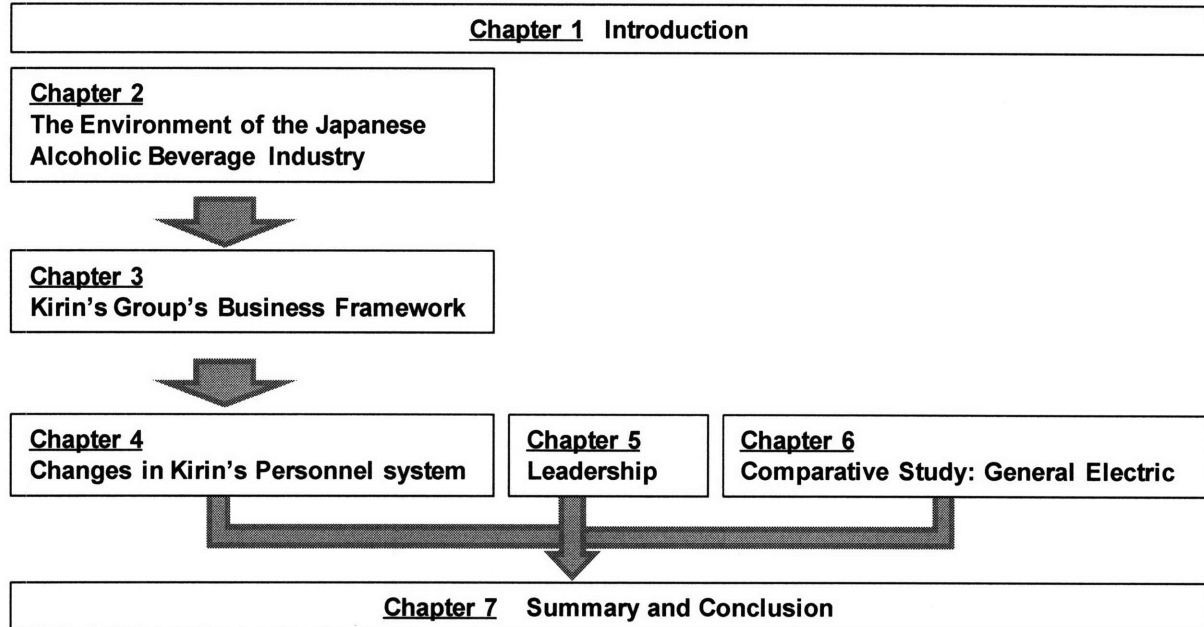

Exhibit 1.1 Thesis Structure
Source: developed by author

In Chapter 2, I analyze the environment of the Japanese alcoholic beverage industry in terms of demographics, consumer preferences, competition, and globalization. Background information will come from publicly released information and internal Kirin documents.

Chapter 3 discusses how Kirin is dealing with the environmental changes identified in Chapter 2. I will provide a brief overview of Kirin's history, its past and current business portfolio, and then explore how the firm hopes to integrate its competencies to meet the goals set out in KV2015. Again, I examine publicly released information and internal documents at Kirin.

In Chapter 4, I discuss changes to Kirin's personnel system. Top management at Kirin believes it is crucial to revise the personnel system in ways that will motivate employees and improve leadership abilities to deal with today's rapidly changing circumstances. Kirin is over 100 years old. It is a traditional Japanese organization featuring such human resource policies as lifetime employment, slow career promotions, and relatively narrow, equalitarian wage bands. I explore how the firm is trying to transform this traditional system. Data about the organization are derived from interviews conducted with Kirin personnel who are responsible for developing human resource strategies. These interviews (n=3) were conducted by e-mail on January 4, January 11, March 16, and March 21, 2008. Information about Kirin is also drawn from internal documents, and my own 15-years of experience in the company.

In Chapters 5 and 6, I explore other approaches that Kirin might consider in order to improve leadership capabilities in the firm. In Chapter 5, I look at the MIT leadership model (Ancona, 2005). I explore the strengths and weaknesses of Kirin's leadership capabilities. I

also conducted interviews with leaders in Kirin (n=4) and also utilized publicly released information and internal documents.

Chapter 6 is a case study of the leader development program at General Electric (GE). GE has a long history of developing leadership capabilities, and there are some key ideas associated with GE's approach that can help improve Kirin leadership. The research method behind this chapter is available GE materials including web-based GE releases.

In Chapter 7, I summarize the findings of my research. I also identify action implications that Kirin might implement in the future.

CHAPTER 2

The Environment of the
Japanese Alcoholic Beverage Industry

Japan's domestic alcoholic beverage industry faces considerable uncertainty in the future—not least because the operating environment is changing far more rapidly than expected. Some of the reasons for this change are: (1) a declining birth rate and an increasingly aged population; (2) greater diversification of consumer preferences; (3) increased competition among industry players; and (4) restructuring and integration of major overseas beer manufacturers. In the following sections, I discuss these reasons in detail.

2.1 Demographics

A decreasing birthrate, combined with increasingly longer life expectancy, has dramatically changed the demographics of Japanese society. Total population began to drop in 2005, and according to forecasts from the National Institute of Population and Social Security Research, the trend will continue, decreasing gradually over time. Exhibits 2.1 and 2.2 illustrate these trends. As a consequence, alcohol consumption has leveled off since the mid-1990s. Exhibit 2.3 shows the trend of taxed liquor shipments, a typical measure of liquor consumption in Japan.
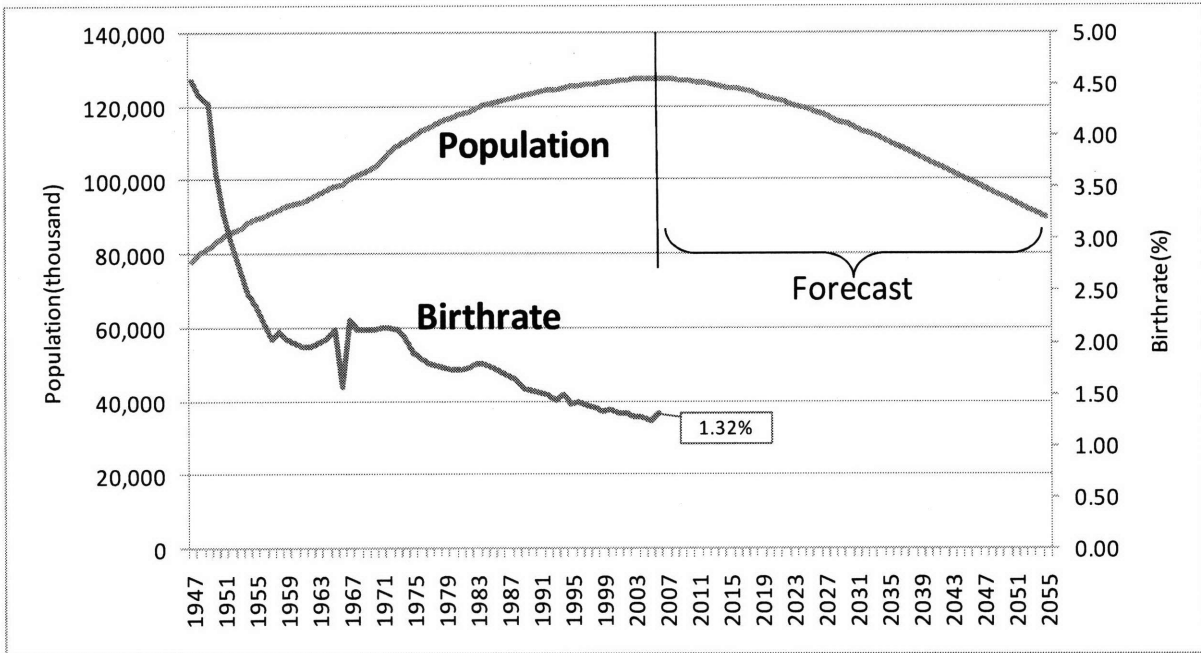
Exhibit 2.1 Population trend in Japan
Source: National Institute of Population and Social Security Research, modified by author

Exhibit 2.2 Adult population in Japan by age group
Source: Kirin Brewery, modified by author

Japanese industry trends in taxed shipments by category *(Calculation basis: 100% alcohol)*
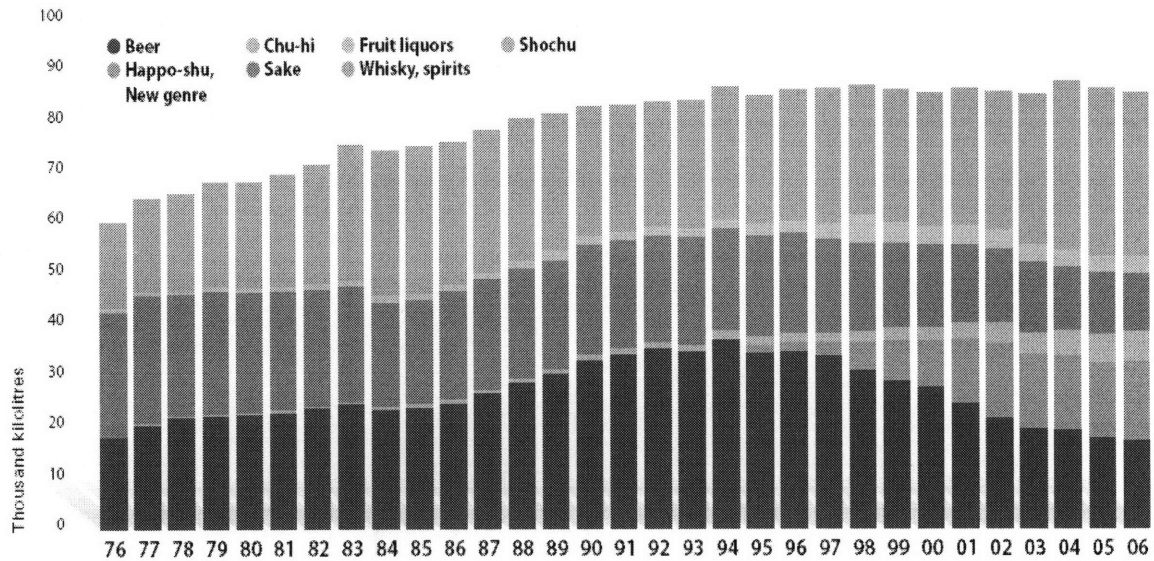
Exhibit 2.3 Japanese industry trends in taxed shipment, by category
Source: Kirin Brewery, modified by author

2.2 Diversification of Consumer Preferences

After the bubble economy burst in the early 1990s, Japanese consumers began to look for lower-price products. However, as the economy began to recover, Japanese consumers' preferences changed dramatically. Consumers became far more discerning about product value. The lowest-price products were no longer attractive to them, and many believed "the cheaper the price, the worse the product." And if product value was the same, then consumers compared prices at several stores, looking for the store with the lowest price. Conversely, they became willing to pay high prices for products they believed would provide real value.

The same trend applies to alcoholic beverages. The market is becoming polarized within product categories. For example, premium beers have increased their market share. Less-expensive new products have also gained increased market share. Some consumers consciously switch positions—drinking premium beer over the weekend and choosing low-price products during the week. In order to meet consumers' demand for low-price products, drinks such as happo-shu[1] and new genre[2] were developed.

Japan's liquor tax law is complicated, and tax rates differ by ingredients and even amount of ingredients. Although happo-shu and new genre products taste like beer, they cannot be called beer in Japan. However, consumers and manufacturers categorize them as "beer-type" drinks.

Consumers enjoy a range of alcohol categories, such as whiskey, wine, sake,[3] shochu,[4] and chu-hi.[5] Indeed, preferences for alcohol are changing. Exhibit 2.4 illustrates the various trends in the alcoholic beverage category in Japan. Sales of shochu and chu-hi have increased over the last ten years, while sake sales have decreased rapidly, and whiskey has decreased gradually.

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[1] Happo-shu, or low-malt beer. is a category of Japanese liquor that refers to a beer-like beverage with less than 67% malt content. First sold in Japan in 1994, the beverage is popular among consumers for having a lower tax than beverages that are classified as beer. It retails at convenience stores for around ¥145 for a 350ml can, compared to around ¥200 for an equivalent can of beer. In 2007 happo-shu accounted for 24.5% of the total beer-type beverage (beer + happo-shu + new genre) market by sales volume.

[2] The new genre line of beverages was developed in 2003 to compete with happo-shu. It falls in the category not yet as highly taxed. New genre products either use malt alternatives such as soy protein, or they are a mix of happo-shu and another type of alcohol. When comparing 350 ml cans, new genre products are usually ¥10 - ¥25 cheaper than happo-shu. In 2007 new genre products accounted for 20.2% of the total beer-type beverages market by sales volume.

[3] Sake is made from rice to which *komekoji* (molded rice) and yeast is added to produce a brewed beverage with an alcohol content of 13-20%. Sake has been produced in Japan for more than 2,000 years.

[4] Shochu is an indigenous alcoholic beverage, but unlike sake, shochu is distilled. It is made from one of several raw materials, including sweet potato, rice, soba (buckwheat), brown sugar, or barley. The alcoholic content is usually 25%, although sometimes it can be higher than 42%.

[5] Chu-hi is a sparkling distilled liquor usually flavored with fruit juice or soda, with around 5% to 7% alcohol content. Traditional chu-hi is lemon flavored with a shochu base, although some varieties have a vodka base. The flavors available have recently multiplied, including lime, grapefruit, apple, orange, pineapple, grape, kiwi, plum, yuzu, and peach.
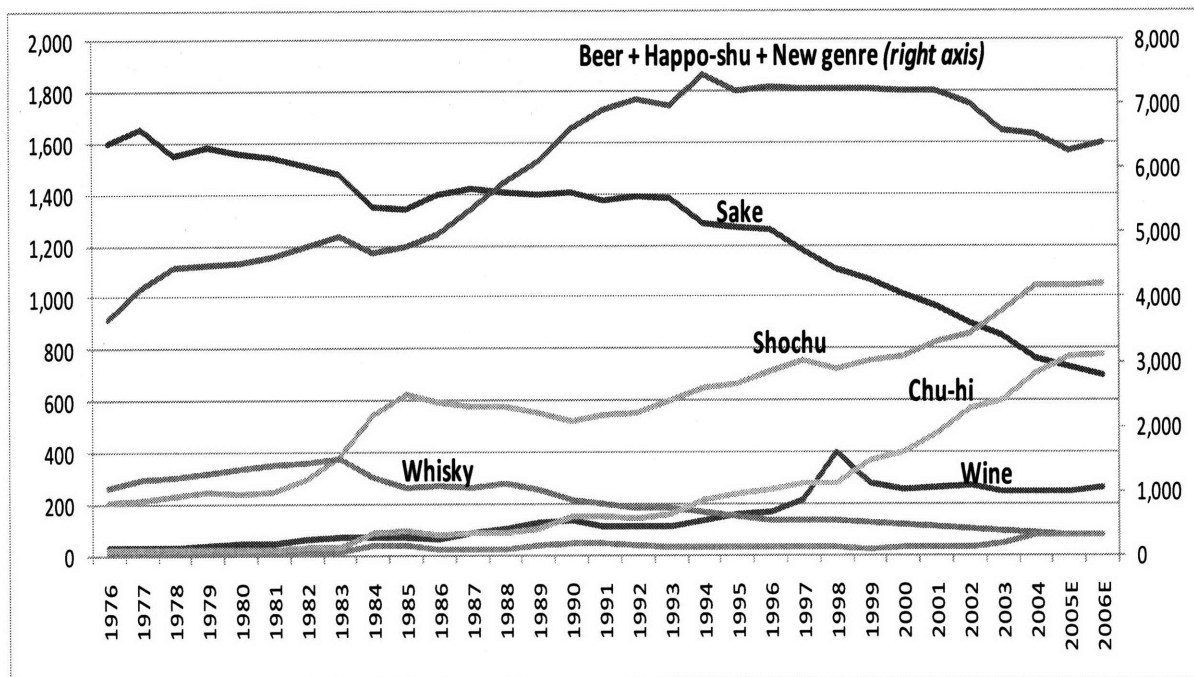
Exhibit 2.4 Trends in various alcoholic beverage categories
Source: Kirin Brewery, modified by author

Typical drinking behavior at *izakaya* (a Japanese pub) is also changing. In the past, most consumers ordered beer as their first drink, saying *"toriaezu beer"* (beer first); then they ordered other drinks such as shochu or sake. However, today's younger generation prefers sweet chu-hi from first to finish at the pub, perhaps not drinking beer at all.

In response to such consumer diversification, manufacturers have sought to offer a range of different alcoholic categories.

2.3   Industry Competitors

Beer brewing as an industry in Japan began in 1869, and by the late 1890s, there were over 100 breweries. The industry eventually realigned, and by 1949 there were only two

breweries: Dainippon Brewing Company (Dainippon) and Kirin Brewery (Kirin). In 1949, Dainippon was sub-divided into Japan Brewery (known as Sapporo Breweries today) and Asahi Breweries (Asahi) in order to comply with Japan's Anti-Monopoly Law. As a result, there were three breweries—Kirin, Asahi, and Sapporo—and each enjoyed almost equally market share at that time.

In 1957, Takarashuzo entered the business but left in 1967. Suntory entered the market in 1963. Today, four major breweries compete in an oligopolistic market: Kirin Brewery, Asahi Breweries, Sapporo Breweries, and Suntory.

Kirin

By 1966, Kirin held over 50% of the market, and by 1979 it held 63.8%. However, the Fair Trade Commission, acting under provisions of the Japanese Anti-Monopoly Law, announced that it was considering splitting Kirin into two separate companies. To avoid such a split, Kirin moved rapidly to shrink its operations in the beer business. This accelerated Kirin's diversification into other business, and gradually decreased its market share (see Exhibit 2.5).
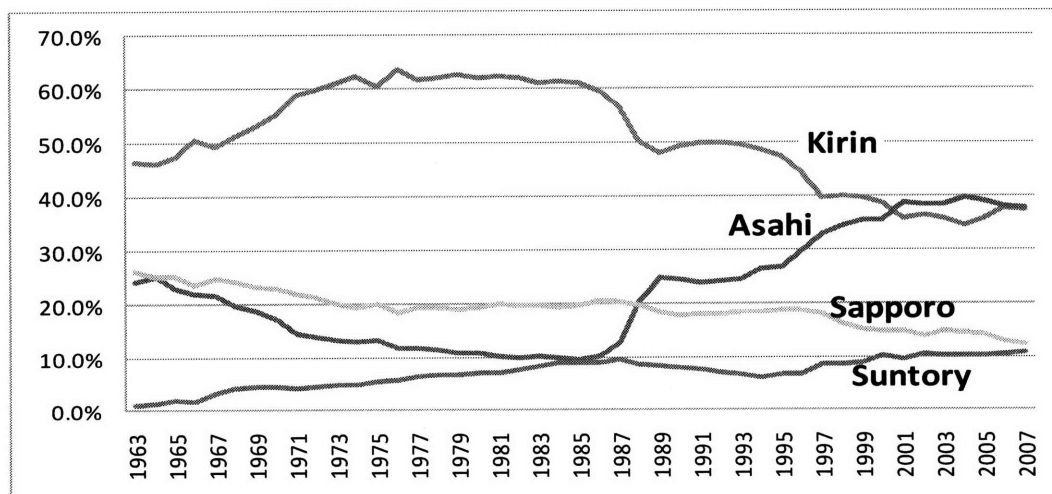
Exhibit 2.5 Trends in market share (Beer + happo-shu + new genre)
Source: Kirin Brewery, modified by author

Asahi

In 1987, Asahi launched a megahit product called Asahi Super Dry beer, which rapidly acquired a large share of the market. In the process, by 2001 Kirin had lost its number-one ranking for the first time in 48 years. This caused severe competition in terms of pricing and new product development. In this highly competitive environment, low-price products like happo-shu and new genre, were developed in 1994 and 2003, respectively. In addition, beer companies added to their product portfolios to respond to consumers' diversified preferences. They expanded other product categories as well, such as wine, chu-hi, and shochu. The industry is now more competitive than ever, not only in the beer market but also in other alcohol categories.

2.4   Restructuring and Integration of Major Overseas Beer Manufacturers

In 2006, world beer consumption was reported to be approximately 1,658 million hectoliters, a growth of 5.8%, and this figure has increased yearly for 21 consecutive years.[6] China has been the top consuming country since 2003, with a growth rate of 14.8%. Among the BRIC countries (Brazil, Russia, India, China), Russia and Brazil have high growth rates of 9% and 4.1% per year, respectively. On the other hand, consumption in developed countries such as the United States, Germany, the United Kingdom, and Japan have stagnated. Exhibit 2.6 illustrates beer consumption rankings by nation in 2006.

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[6] Kirin website: <http://www.kirinholdings.co.jp/news/2007/1217_01.html>.

2006 Ranking	2005 Ranking	Country	2006			2005	
			Consumption (million hectoliters)	Conposion ration	Growth rate	Consumption (million hectoliters)	Conposion ration
1	1	China	350.0	21.1%	14.8%	304.9	19.5%
2	2	U.S.A	244.8	14.8%	1.8%	240.6	15.4%
3	5	Russia	96.0	5.8%	9.0%	88.1	5.6%
4	3	Germany	95.4	5.8%	0.3%	95.1	6.1%
5	4	Brazil	93.7	5.6%	4.1%	90.0	5.7%
6	6	Japan	63.0	3.8%	-0.7%	63.4	4.0%
7	7	Mexico	59.7	3.6%	4.0%	57.4	3.7%
8	8	United Kingdom	55.8	3.4%	-2.1%	57.0	3.6%
9	9	Spain	36.5	2.2%	2.5%	35.6	2.3%
10	10	Poland	32.5	2.0%	7.2%	30.3	1.9%
11	11	South Africa	24.9	1.5%	2.6%	24.3	1.5%
12	13	Ukraine	24.1	1.5%	12.0%	21.5	1.4%
13	12	Canada	22.5	1.4%	1.8%	22.1	1.4%
14	17	Colombia	20.3	1.2%	7.5%	18.9	1.2%
15	15	Czech Republic	20.3	1.2%	6.4%	19.1	1.2%
16	14	France	20.3	1.2%	-0.5%	20.4	1.3%
17	16	Venezuela	19.9	1.2%	4.7%	19.0	1.2%
18	21	Thailand	18.8	1.1%	15.3%	16.3	1.0%
19	18	Italia	17.9	1.1%	2.9%	17.3	1.1%
20	22	Romania	17.7	1.1%	16.4%	15.2	1.0%
21	20	Australia	17.5	1.1%	1.0%	17.3	1.1%
22	19	Korea	17.0	1.0%	-1.7%	17.3	1.1%
23	23	Vietnam	15.2	0.9%	7.8%	14.1	0.9%
24	24	Argentina	14.8	0.9%	6.5%	13.9	0.9%
25	26	Holland	12.7	0.8%	-0.7%	12.8	0.8%
		Total	1,657.6		5.8%	1,566.7	

Exhibit 2.6 Beer consumption ranking in 2006
Source: Kirin Brewery, modified by author

The first signs of market maturation were seen in the developed countries in the 1980s. This caused the larger breweries in those countries to expand into developing markets. This marketing strategy was of two types: (1) selling a manufacturer's own brands in distant countries through an alliance with local breweries (e.g., Anheuser-Busch and Heineken); or (2) nurturing a local brand which the manufacturer acquired (e.g., InBev and SABMiller).

Recently, breweries have begun to adopt the second strategy, acquiring a local brand, because the local population has developed a preference for its own brands. In recent years, mergers and acquisitions between large breweries have increased as a way to enhance economies of scale in business operations, including procurement, marketing, promotion, and sales. As a result, the ranking of top breweries changes continually. Exhibit 2.7 illustrates these changes in the world beer industry.

	1998		2001		2005		
Ranking	Company	Shipment	Company	Shipment	Company	Country	Shipment
1	Anheuser-Busch	130.3	Anheuser-Busch	138.5	Inbev [2]	Belgium	202.0
2	Heineken	79.1	Heineken	90.9	Anheuser-Busch	U.S.A.	174.0
3	Miller	55.9	Interbrew	64.2	SABmiller [3]	South Africa	168.4
4	Interbrew	48.3	Ambev [1]	58.7	Heineken	Holland	118.6
5	SAB	47.7	Miller	55.2	Carlsberg	Denmark	68.9
6	Brahma	42.5	SAB	52.5	Scottish&Newcastle (S&N)	U.K.	54.0
7	Carlsberg	35.3	Carlsberg	37.0	Modelo	Mexico	45.5
8	Modelo	32.3	Scottish&Newcastle	36.9	Molson-Coors [4]	U.S.A.	42.3
9	Forser's	29.7	Modelo	34.5	Baltic Beverages Holdings. (BBH) [5]	Russia	41.4
10	Kirin	29.3	Kirin	34.0	Tsingtao Beer Holding [6]	China	40.8
	Total	530.4	Total	602.4	Total		955.9

[1] Ambev: Brahma merged Antarctia in 1999 (shipment: Million hectolitres)
[2] Inbev: Interbrew acquired AmBev in 2004
[3] SAB acquired Miller in 2002
[4] Coors merged Molson in2005
[5] S&N acquired 50% share of BBH in 2002, and thus BBH became a 50:50 joint venture between S&N and Carlsberg
[6] 27% of the company is owned by Anheuser-Busch since 2005

Exhibit 2.7 World beer industry ranking
Source: IDEO-JETRO Research Paper by Kou, 2007. From MIT thesis by Yoshimura, 2007. Modified by author.

New acquisitions continue to occur. According to Reuters (Routers website), Carlsberg and Heineken agreed on January 25, 2008, to offer a cash bid of 7.8 billion pounds ($15.3 billion) to buy and break up Scottish and Newcastle (S&N) to boost the Danish

brewer's position in Russia and the Dutch group's presence in western Europe. The amount of this acquisition is almost the same as the market value of Japan's largest brewer, Kirin.

Globalization among Japanese breweries is less advanced than among the world's largest breweries. Japanese breweries are more likely to diversify into other businesses, such as other alcoholic beverages, soft drinks, pharmaceuticals, and the restaurant business. They are less likely to go abroad to expand market share. Having said that, however, Japanese breweries are taking a second look at the possibilities of going global not only in the beer business but in other categories. Kirin and Asahi were, for example, ranked 12th and 15th ,respectively, in the world beer industry rankings for 2005. Sapporo became a buyout target of the U.S. hedge fund, Steel Partners Japan, which plans to acquire 66.6% of the voting shares in Sapporo through a public tender offer (as of January, 2008). This will likely have a major impact on the Japanese beer industry.

2.5 Summary

The environment of the alcoholic beverage industry has become dynamic and highly competitive due to the maturing of domestic markets, diversification of consumers' preferences, and the threats of global reorganization. In order to continue growing in the future, Kirin formulated a long-term business strategy in 2006. In the next chapter, I will explore how Kirin is planning its strategy to address these difficult circumstances.

CHAPTER 3

Kirin Group's Business Framework

3.1 History of Kirin Holdings Company

Kirin's history traces back to 1870, when William Copeland, a naturalized U.S. citizen of Norwegian descent, opened the Spring Valley Brewery in Yokohama. The Japan Brewery Company took over Copeland's company in 1885, and at the time hired a German brew master. It was his taste that became the base taste for Kirin products. In 1907, the firm became incorporated as Kirin Brewery, Limited, and at that time management of the company had been taken over entirely by Japanese personnel. The company name, KIRIN, comes from a mythical creature in the ancient Orient.

Since 1907, Kirin has enjoyed enormous growth and by 1972 it controlled more than 60% of the beer market. In fact, as mentioned in Chapter 2, Kirin needed to shrink its beer business in the 1920s to avoid being split into two separate companies to comply with the Anti-Monopoly Law. To resolve the situation, Kirin chose to diversify, becoming a comprehensive drink and food company. This strategy allayed concerns about Kirin's high beer market share. Kirin diversified into business such as Whisky, Tomato Juice, and Dairy Foods while controlling beer production and sales activities. In the end, Kirin remained intact and decreased its beer market share gradually.

By 1980, however, the beer market was no longer growing at 10%, but rather only 2-3% growth per year. At that point, Kirin decided to diversify further into other fields such as

engineering development, pharmaceuticals, and the agribio business. The company also began to internationalize; not only into the United States, but also Singapore, Hong Kong, and Germany.

However, before a profit could be realized from these diversified businesses, a crisis occurred in the domestic alcohol beverage business. Asahi launched its "Super Dry" beer in 1987. This caused Kirin's beer market share to fall from 59.8% in 1986 to 48% in 1989. To deal with the problem, Kirin strengthened its core alcohol beverage business; reinforced its product portfolio such as wine, shochu, and chu-hi; and introduced happo-shu and new genre products.

3.2   Kirin's Business Portfolio

In 2006, Kirin generated sales of ¥1.67 trillion (approximately $14.5 billion) with an operating income of ¥116 billion (approximately $1 billion). Kirin's had four business segments: (1) alcoholic beverages, (2) soft drinks, (3) pharmaceuticals, and (4) other businesses including health foods, functional foods, and the agribio business. Exhibit 3.1 illustrates the breakdown of Kirin's consolidated revenue among these four categories.
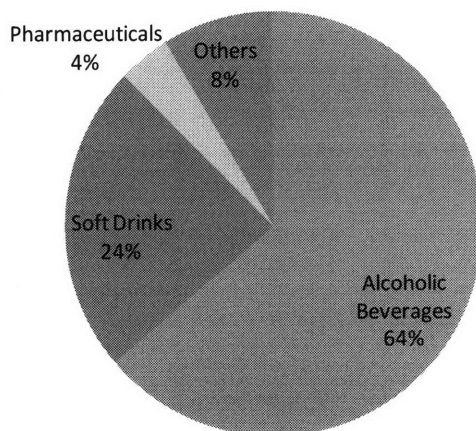

Exhibit 3.1 Breakdown of Kirin's consolidated revenue (2006)
Source: Kirin Brewery Annual Report 2006, adapted by author

3.2.1 Alcohol Beverages

The alcohol beverage segment is Kirin's main business and the major source of the Group's earnings. Sales and operating income in this business represented 63.8% and 71.5%, respectively, of the consolidated Group performance for 2006. Kirin's domestic strategy in this business environment is to expand operations as a comprehensive alcohol beverage business, promote a shift from price-driven to value-driven marketing, and secure leading positions in key growth areas such as happo-shu, new genre, and chuhi. To enhance its product portfolio, Kirin formed a business and capital alliance with leading Japanese wine producer and importer, Mercian Corporation, in 2006.

Kirin's overseas alcohol beverages business is centered in Asia and Oceania. It operates within a broad scope that includes procurement, manufacturing, and distribution businesses in Europe, Russia, North America, and elsewhere. A core element of Kirin's overseas strategy is developing partnerships with other leading brewers, the largest of which are Lion Nathan in Australia and San Miguel in the Philippines.

In China, Kirin focuses on three areas: the Yangtze River delta, the Pearl River delta, and northeast China. Kirin (China) Investment Company, Ltd., is the holding company that manages the alcohol beverages business in China. In the Pearl River delta region, Kirin began construction in 2007 of a new plant for its wholly owned subsidiary Kirin Brewery (Zhuhai) Company. This plant will double capacity and allow wider marketing of Kirin brands and locally branded beer.

In Russia, Kirin commenced local production of Kirin beer to improve product freshness and expand sales in the Russian beer market, which has been showing double-digit growth.

3.2.2   Soft Drinks

The soft drinks segment is Kirin Group's second largest segment. Sales and operating income represented 24% and 17% of consolidated sales and operating income, respectively. Kirin Beverage Corporation became a wholly owned subsidiary in 2006 and is Japan's third-largest soft drink enterprise, producing carbonated drinks, coffee, tea, fruit juices, sports drinks, and mineral waters (see Exhibit 3.2).

Kirin soft drink volumes by category
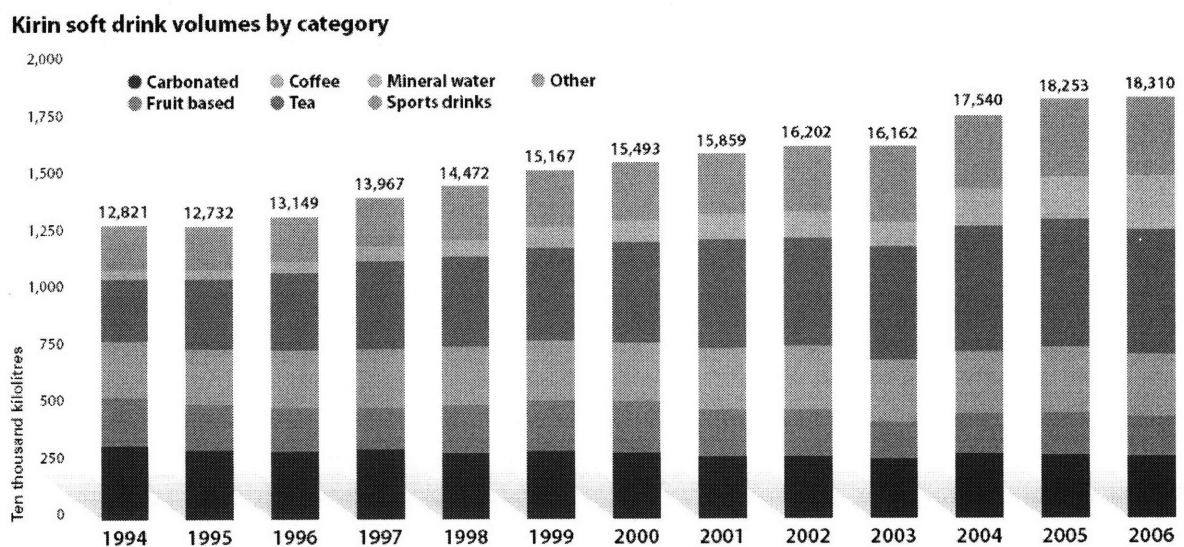
Exhibit 3.2 Kirin soft drink volumes by category

Source: Kirin Brewery Annual Report 2006, adapted by author

Growth in Japan's approximately ¥4 trillion soft drink market has leveled off after nearly a decade of steady expansion. Several characteristics of the market in 2006 show that the market and the industry have matured. First is the scale of hit products. New mega-brands are increasingly difficult to develop. At the same time, the market is rapidly becoming more health conscious. This has driven the growth of brands with fresher or more pure ingredients, recognized health functions, sugar-free flavoring, or other such features.

Outside of Japan, Kirin currently sells its soft drink products in Shanghai, Guangzhou, and Beijing, China, where sales have been growing steadily as Kirin develops its organizational structure. In 2006, Kirin began the manufacture and sales of *Kirin Nama-cha* (Green tea) in Thailand. Kirin plans to expand into additional countries in the Asia-Pacific region with products and brands that can be adapted to local tastes and consumer demands.

Although Kirin does not sell its products in the United States, Kirin wholly owns the Coca-Cola Bottling Company of Northern New England, Inc. (CCNNE). This subsidiary manufactures and sells soft drinks for a wide range of companies in the New England sales territory and makes a major contribution to Kirin's consolidated results. With the recent acquisition of Coca-Cola Bottling Company of Southeastern New England, in Connecticut, CCNNE will become one of five largest Coca-Cola bottlers in the U.S.

3.2.3 Pharmaceuticals

Kirin entered the pharmaceutical business in 1982 and has built on its biotechnology capabilities to become a fully integrated pharmaceutical company. It covers the full value chain, from R&D to production and in-house marketing. The business includes a joint venture with Amgen, which developed Kirin's major EPO (for the treatment of renal anemia) and GCS-F (for the treatment of leucopenia) products. Kirin's pharmaceutical research is focused on the specialty areas of kidney diseases, cancer, and infectious diseases, and incorporates programs to develop human antibodies and dendritic-cell therapeutic vaccines using proprietary technology. The pharmaceutical business represented 4% of consolidated sales and 10% of consolidated operating income in 2006.

Kirin reached an agreement to enter another strategic alliance between Kyowa Hakko Group and Kirin Group in 2007. With the addition of Kyowa-Hakko, the sales of pharmaceutical products will increase five-fold.

The overseas operations generated nearly 10% of Kirin's total pharmaceutical sales in 2006. Kirin has three R&D subsidiaries in U.S. and sales subsidiaries in Shanghai, Hong Kong, Taipei, Korea, Singapore, and Thailand. Kirin plans to introduce additional products and expand its sales network in ASEAN countries.

3.2.4   Other Businesses

Other businesses within Kirin Group include health & functional foods, seasonings, and agribio. These businesses leverage Kirin's R&D capabilities in the area of beer brewing. Among these, the health & functional foods business—the company's fourth business pillar—is an area Kirin is targeting for future growth.

In 2007, full-scale production began at a seasoning plant in Indonesia that delivers world-class productivity and quality control. The strategic aim of this operation is to expand Kirin's market share in key regions in Asia.

3.3   Kirin Group's Vision 2015

In May 2006, Kirin announced Kirin Group Vision 2015 (KV2015). This is a long-term operating framework that charts the company's major initiatives until 2015 (see Exhibit 3.3). Under KV2015, Kirin aims for a quantum leap in growth to become a leading company in Asia and Oceania. Sales are projected to reach ¥3 trillion (approximately $14.5 billion) by 2015 and operating profit of more than 10%.

Exhibit 3.3 Overview of Kirin Group Vision 2015

Source: Kirin Brewery, modified by author

To achieve this, Kirin is introducing a holding company structure and intends to implement measures that will create a group synergy. While strengthening its core business, Kirin will strive to become an integrated beverage provider, internationalize its businesses, and further develop and expand the health & functional food businesses.

3.3.1 Background

As mentioned in Chapter 2, the operating environment surrounding Japanese alcohol beverage industry is changing rapidly, while growth in Kirin's traditional businesses is decreasing. Kirin management believes that it must change the environment itself. Koichiro Aramaki, Chairman and CEO of Kirin commented:

Some may ask why we are setting up a long-term business framework for the next 10 years. It is necessary for us to respond flexibly in a rapidly changing business environment. However, we also tend to be passive, only floating in that stream. It is important to have future foresight along with purpose and assertiveness, so we can undertake initiatives in the environment. In other words, we must have dreams and will for the future society. This is the reason I would like to share with all of you the dreams and will for the next 10 years of the Kirin Group.

Kazuyasu Kato, President and COO, also commented: "Although we have dreams and will, we will not reach the goal we have set for current growth. We must attain continuous and quantum growth by bold resource distribution, such as intensive human resources deployment and alliances with external partners." Exhibit 3.4 illustrates the quantum growth Kirin is seeking.
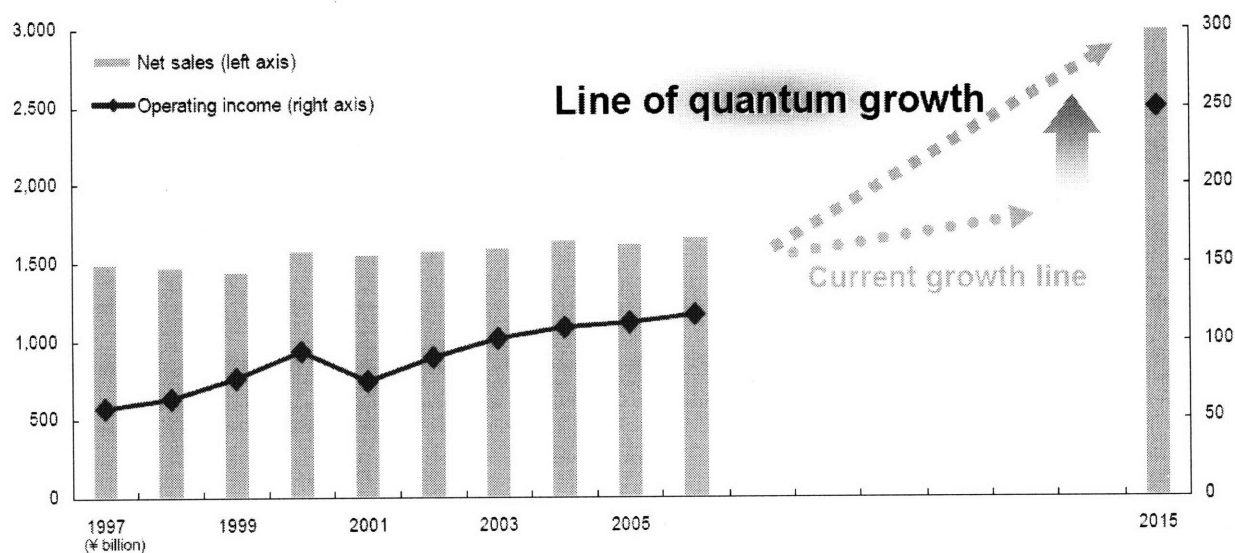

Exhibit 3.4 Quantum Leap in Growth

Source: Kirin Brewery, modified by author

3.3.2 Achieving a Quantum Leap in Growth

Although there were four key strategies for achieving a quantum leap in growth at the time of the announcement of KV2015, Kirin added another strategy to cover pharmaceuticals when it announced Kirin's medium-term business plan for 2007–2009 (KV2015 Stage 1). The five strategies are discussed in this section.

Strategy 1: Create renewed growth in the domestic alcohol beverage business

Kirin continues to meet the diverse needs of customers, thereby ensuring a stable domestic alcohol beverage business as the foundation of the Group's operations. While strengthening the Group's position as a comprehensive beverage group, Kirin aims to secure high levels of customer support and loyalty, and thus significantly outperform the general growth rate for the industry. This must be accomplished despite the declining trend expected in the combined market for beer, happo-shu, and new genre. Kirin seeks to boost its competitive position through a reformed cost structure based on cross-divisional measures that encompass savings in development, procurement, production, distribution, and sales. The company will invest approximately ¥100 billion in new, more efficient manufacturing equipment. This will increase the production of new, high added-value products, including products from the newly acquired Mercian Corporation.

Strategy 2: Move closer toward becoming a comprehensive beverage group

In order to support growth by maximizing group synergies, Kirin intends to its strengthen business alliances along the entire value chain, extending beyond the business frameworks of Kirin Brewery and Kirin Beverage. These alliances seek to create products

with new value that meet customer expectations. Kirin will maintain its existing alliances in product development, manufacturing, and sales. In the soft drinks area, Kirin Brewery's research and marketing process will attempt to develop innovative products and new marketing methods. Through actively pursuing strategic alliances, Kirin seeks to become number two in the domestic soft drinks industry. Exhibit 3.5 illustrates Kirin's integrated value chain.
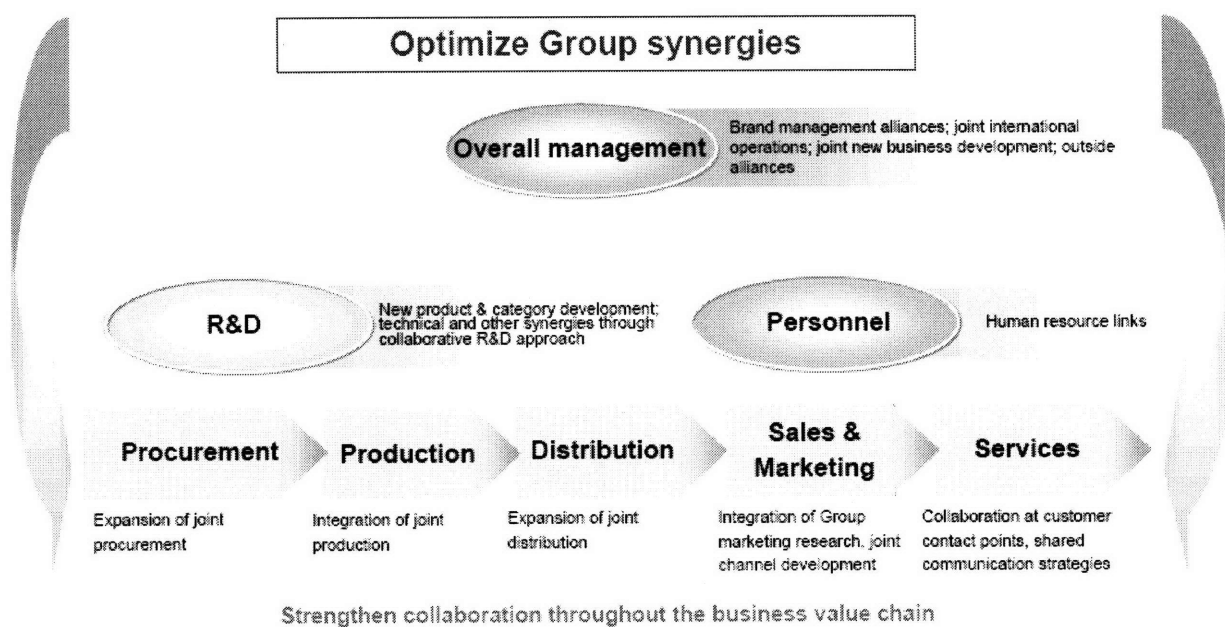
Exhibit 3.5 Integration as a comprehensive beverage group
Source: Kirin Brewery, modified by author

Strategy 3: Increase Kirin's international business

The target in international business is to generate 30% of sales from overseas by 2015 (see Exhibit 3.6). To this end, Kirin Group—particularly in the food and health sectors in Asia and Oceania—will establish strategic business alliances with Lion Nathan (Australia) and San Miguel (Philippines). Kirin will also create new business in ASEAN countries with high growth potential, developing business not only in the alcohol beverage industry but also in soft drinks and pharmaceuticals. Exhibit 3.7 illustrates Kirin's overseas target area.

Exhibit 3.6 Overseas ratio

Source: Kirin Brewery, modified by author

Exhibit 3.7 Overseas target area

Source: Kirin Brewery, modified by author

Strategy 4: Develop the health food and functional food business

As previously mentioned, Kirin has positioned its health & functional food business as its fourth core business pillar alongside the other three pillars: alcohol beverages, soft drinks, and pharmaceuticals. Centered on Kirin Yakult NextStage, the Group will develop distinctive health and functional food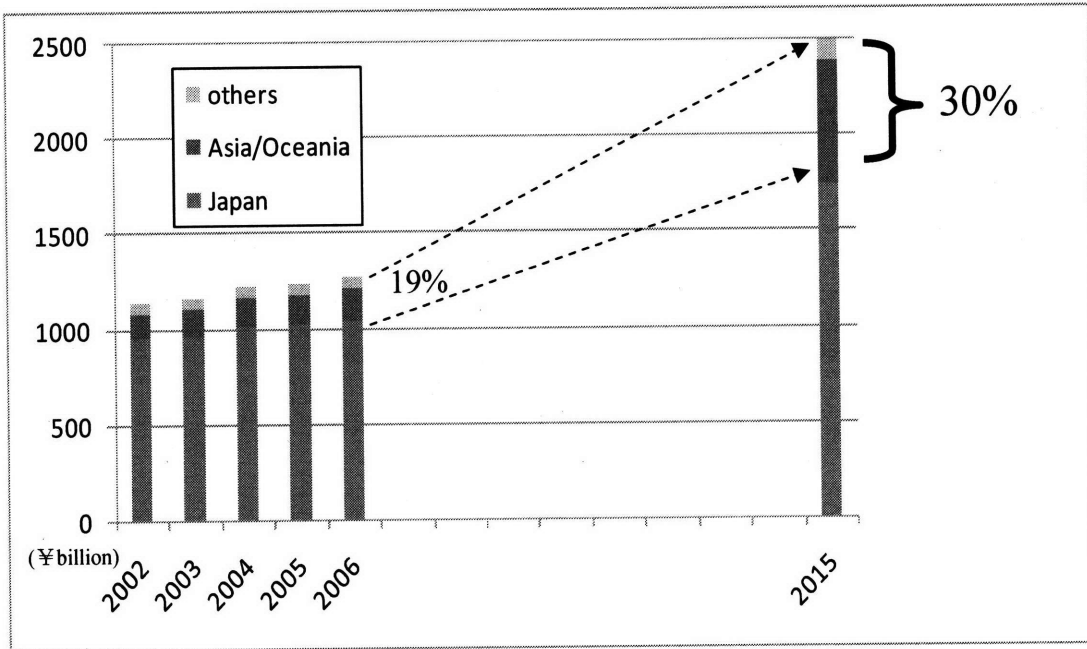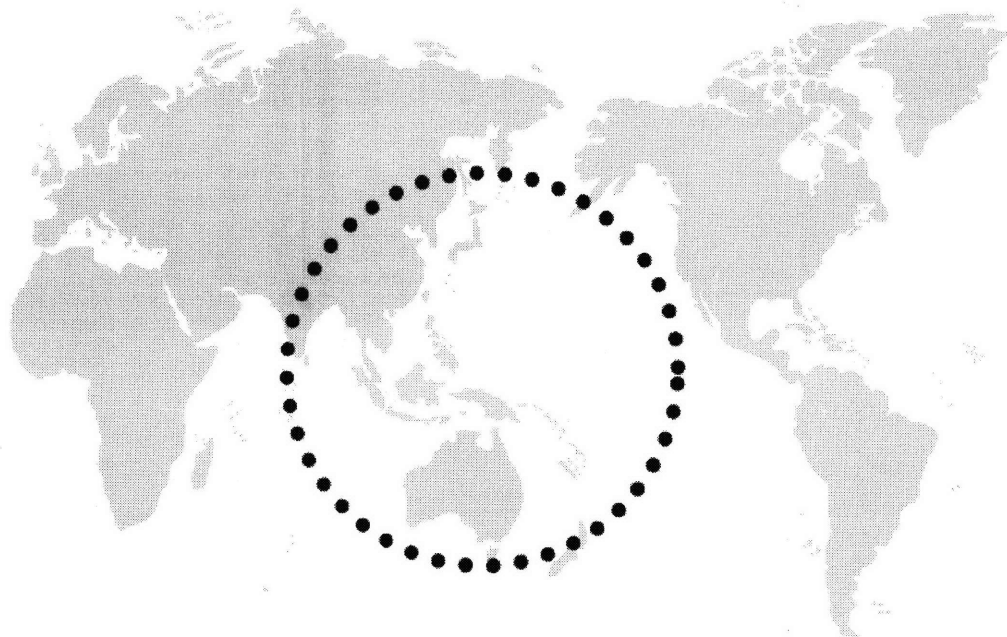 products that offer new value, drawing on its advanced fermentation techniques and biotechnologies. The health & functional food market is expected to grow as consumers become more health conscious and society continues to age. This market is expected to double by 2010.

Strategy 5: Accelerate growth in pharmaceuticals and leverage proprietary strengths to develop the agribio business

In pharmaceuticals, the company intends to strengthen its focus on the specialty areas of kidney diseases, cancer (including blood cancers), and infectious diseases, while making further progress in the area of human antibodies and cell medicine. This will create new value in the medicinal field. In renal medicine, Kirin seeks to accelerate growth by commercializing drugs such as KRN321, a long-lasting erythropoiesis stimulating agent, and KRN1493, an agent for the treatment of secondary hyperparathyroidism, which uses a new mechanism. Further, the domestic marketing structure will be boosted by increasing the number of medical representatives.

For overseas markets, an R&D base in the U.S. will be built to facilitate the expansion of business in ASEAN countries. In agribio, resources will be concentrated in the seeding business for floriculture, potatoes, and other plant-related areas. By developing advanced cultivation and growth-proliferation techniques, Kirin seeks to produce products of high quality and high added value.

3.3.3   Introducing a Holding Company Structure

In order to make the Group management more dynamic and competitive, Kirin implemented a pure holding company system in July 2007. The objective is to enhance the Group's corporate value by allocating resources to growth areas, expanding synergies inherent in the Group, and enhancing the autonomy, mobility, and flexibility of each business. The holding company system has an organizational structure suitable for implementing growth strategies in all Kirin companies. The new system also integrates support functions such as accounting and human resources in a new integrated division, which should enhance the efficiency of the support functions. Exhibit 3.8 illustrates the pure holding company system (as of July 2007).
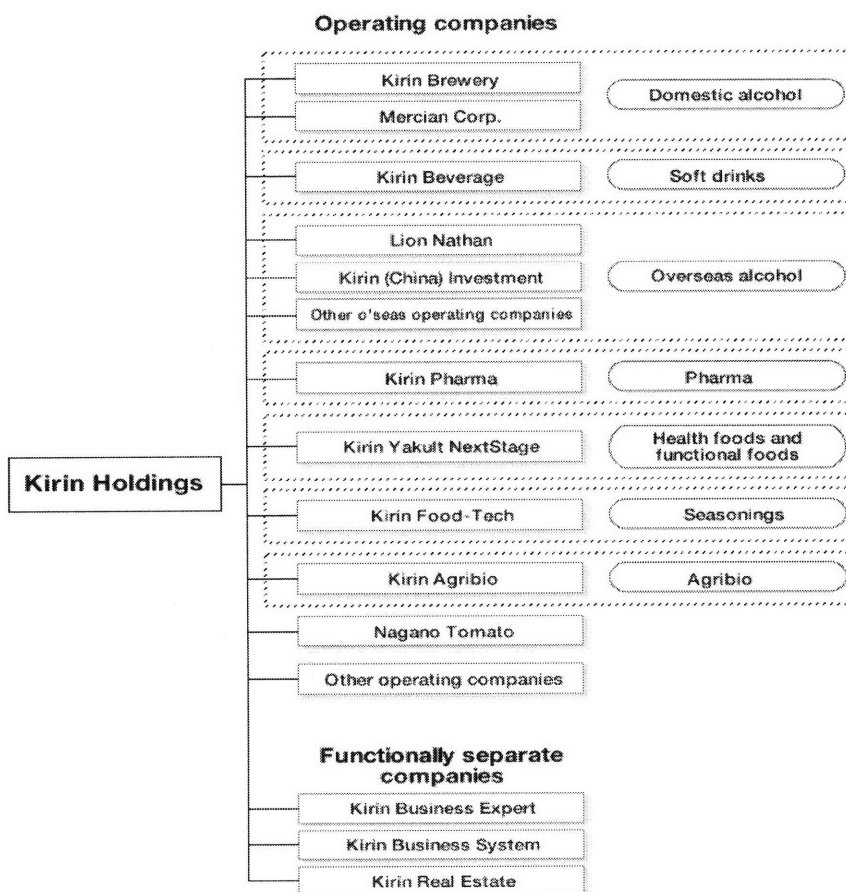
Exhibit 3.8 Overview of holding company system

Source: Kirin Brewery, modified by author

3.3.4 Kirin Group's Corporate Philosophy

In January 2007, Kirin announced a new corporate philosophy that defines the goals of Kirin Group for the next 100 years. The new philosophy is divided into two parts: "The Kirin Way", which defines the basic values and conduct of individual executives and employees; and "Group Action Declaration", which states the pledges that the Kirin Group makes to its many stakeholders (see Exhibit 3.9).

Since the announcement of KV 2015 in 2006, Kirin has expanded its business rapidly. It acquired Mercian, a Japanese wine producer and importer, for $225 million in December, 2006. It acquired Kyowa Hakko, a pharmaceuticals company, for $1.5 billion in October, 2007. It acquired National Foods, an Australian dairy products and beverages company, for $2.7 billion in December, 2007. These acquisitions were accomplished at an unprecedented pace and scale, given Kirin's history.

Operational synergy is the main objective of Kirin's M&A strategy, and this depends on people who implement projects. Some in the company say "Better leaders would make the M&A equation 1+1=3 or even 5. Poor leaders make it less than 2." In the next chapter, I will explore Kirin's career system and how Kirin trains its employees to take leadership positions in the firm.

KIRIN

The Kirin Group - Focused on people, nature and craftsmanship to redefine the joy of food and health

We pride ourselves on offering products based on what people want.
We pride ourselves on our ability to harness the goodness of nature through innovative technology.
We pride ourselves on delivering tangible satisfaction and quality in everything we make.
All of which ensures that we exceed customer expectations.
And naturally, we do not stop there.
As we look forward with vision and dreams, we aim to continue offering food and health products
that bring new joy to people's lives everywhere.
Always a step ahead, the Kirin Group supports health, pleasure and comfort in your life.

THE KIRIN WAY

Values
The things we each hold important

A customer-focused approach
Striving to understand our customers better than any competitor; remembering the importance of communication with customers to better meet their hopes and expectations

A steady focus on quality
Relentlessly pursuing quality while perfecting our own unique technology with uncompromising attention to detail

Innovation
Thinking freely and with vision to generate new, exciting ideas; having the courage to actively propose new value

Integrity
Maintaining a fair-minded and earnest stance toward all business activities

Basic Action Stance
The "3Cs" that govern the actions of all Kirin employees

Challenge
Taking individual initiative without fearing the results; responding with change and innovation

Commitment
Giving serious thought to all matters to see their true nature; assuming responsibility for meeting goals and fulfilling the roles assigned to us

Collaboration
Working together as a team; joining forces to cooperate and connect

Group Action Declaration

Customers
To use Kirin's own technology to provide safe, high-quality products and services that offer value and assurance to customers
(Creation of value for customers)

Employees
To create a workplace in which each employee can exhibit his or her independence and creativity, taking pride in the job and enjoying a sense of meaning and purpose
(Respect for human nature)

Shareholders
To fulfill our responsibility to shareholders from a long-term, global perspective, continuously striving to elevate our corporate value
(Increased value for shareholders)

Society
To contribute to the sustainable development of society while carrying out business activities in an environmentally-conscious manner; to contribute to a better quality of life for people around the world.
(Contributing to society; concern for the environment)

Exhibit 3.9 Kirin Group's Philosophy

Source: Kirin Brewery, modified by author

Chapter 4

Changes in Kirin's Personnel System

As a traditional Japanese organization for over 100 years, Kirin had long-established human resource policies, such as lifetime employment, slow career promotions, and relatively narrow and equalized wage bands. The personnel system concentrated on developing people as generalists rather than specialists. Although Kirin occasionally adjusted the personnel system as the company grew, its HR policies became a critical issue in the late 1980s as Kirin began to lose market share.

In 1997, when Kirin announced its "mid-term business framework" (three-year targets for 1998-2000), the company made major changes to the personnel system. Since that time, Kirin has continued to revise the system and policies, hoping to motivate employees to deal with rapidly changing circumstances.

4.1   Beginnings of Change

In 1997, Kirin's top management established an optional early retirement plan for top managers (just below board-member level) who had reached age 57 and for other managers and all employees who were at least 55. The effect of this was to reduce the lifetime employment system somewhat, as the previous retirement age was 60 for both top managers and others. At the same time, Kirin's top management reduced the number of levels in the

management hierarchy from seven layers to four—also a major simplification of the promotion system. However, the speed of promotions was not affected.

4.2 New Kirin Declaration

In 2001, when Kirin lost its number one ranking in beer market share for the first time in 48 years, Koichiro Aramaki, President of Kirin, announced a "New Kirin Declaration." In it, Aramaki said that the root cause of the downturn in business were errors in judgment by top management, including himself. He called on all employees to think of "the loss of the company's number" as every person's problem and then to act accordingly. It was unusual for the president to admit errors in judgment. Yet it may have highlighted to employees that Kirin had urgent problems.

Four strategies were outlined in the "New Kirin Declaration". One dealt with human resource management. Aramaki stated:

> The New Kirin Declaration expresses our commitment to realizing an open, dynamic corporate culture that encourages the generation of new ideas and actions. We will readjust our management system and personnel system, and we also reform personnel training programs for the next-generation managers. (Kirin Management Policy 2002)

Consequently, a new personnel strategy was designed. To implement the strategy, top management from Kirin's Personnel Department redefined a new personnel philosophy entitled "Respect for People." This is also part of Kirin Group's "Action Declaration" in Kirin Group's Philosophy (refer back to Exhibit 3.9). Up to this time, most employees thought of the company philosophy as guaranteeing their security in a workplace that treated all equally and fairly. However, some felt this philosophy led to a less-motivated workforce.

The new philosophy outlined in the declaration stressed individualism. Kirin's Corporate Social Responsibility (CSR) Report 2007 notes:

> Respect for people means respecting the individuality of each employee and his or her efforts to grow personally, and creating a workplace where employees can fully harness their potential. Kirin also thinks of employees and companies as equal partners, linked through work. Kirin clearly pledged its commitment to respect and support employees with a drive to grow as autonomous individuals, and it also stated its expectation that they will act as autonomous individuals. (Kirin Group CSR Report 2007, p. 36)

Exhibit 4.1 illustrates Kirin's most recent version of its corporate philosophy regarding the treatment of its employees.
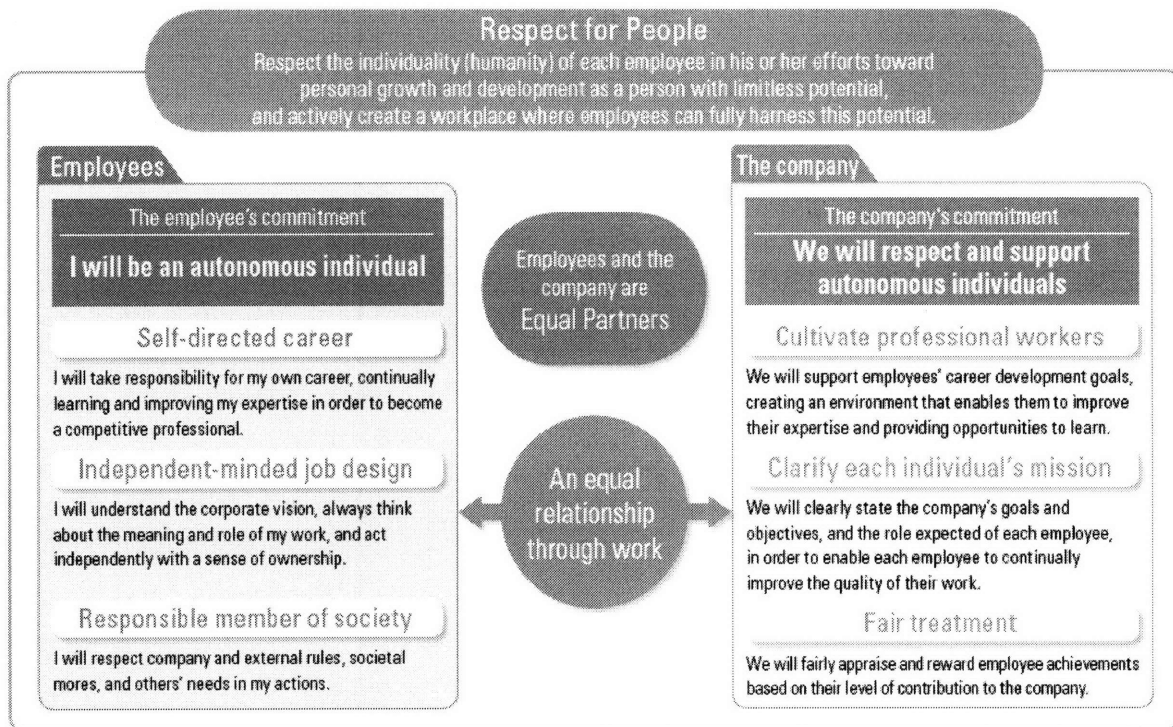

Exhibit 4.1 Basic Philosophy of "Respect for People"
Source: Kirin Group CSR Report 2006, adapted by author

4.3   New Personnel Strategy

The new personnel strategy at Kirin has four main parts:

(1)   Implement a new structure and revise the company's personnel evaluation methods;

(2)   Construct a mechanism to help individuals become more autonomous;

(3)   Make Kirin a better place to work by hiring a greater diversity of employees; and

(4)   Enhance leadership in middle management positions and expand personnel training programs.

In the following sections, I discuss these strategies in detail.

4.3.1   Implement a New Structure and Revise Personnel Evaluation Methods

In March 2006, Kirin's Personnel Department announced a new hierarchical structure for managerial-level staff. Early promotions were permitted for only a few outstanding managers. Some managers might even be demoted—an unprecedented occurrence in Kirin. Historically, Kirin has had a standard qualification system for all managerial-level staff. Each qualification level is linked to only certain positions. For example, managers who were qualified above the Director Level could be plant managers; managers whose qualifications put them below that level could not take such a position. There were minimum requirements for years of work experience at each level, and the salary range was set at each level. No demotions occurred; if someone achieved an upper level, they stayed there. Top management added a new grading system to its then-current qualification system. It is relatively complicated. Exhibit 4.2 illustrates the structural changes in Kirin's personnel system.

Before	After	
Executive	Executive	Grade 1
Director	Director	Grade 2
Deputy Director	Deputy Director	Grade 3
Manager	Manager	Grade 4
Deputy manager	Deputy manager	Grade 5
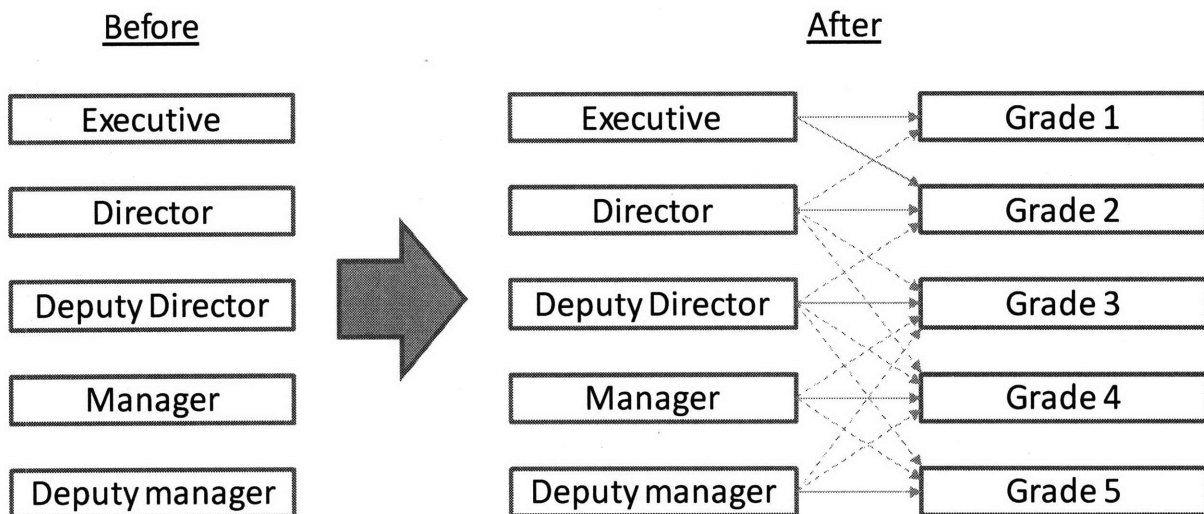
Exhibit 4.2 Changes in Kirin's Personnel Structure

Source: Kirin Managers Handbook 2007, modified by author

The novel feature of the new structure is its separation of job descriptions from qualifications. Job descriptions are now linked with the grading system. The solid lines in Exhibit 4.2 indicate the basic relation between qualification and grade. The dotted lines indicate possible relations between the two. In the past, a Deputy Director could not be a plant manager in grade 2. However, in the new system, a Deputy Director can be a plant manager while also maintaining his qualification as Deputy Director. This allows outstanding managers to take higher positions before they acquire the minimum work experience for a particular position. Managers in higher positions receive more salary than managers with the same grade qualification. Managers now have an opportunity to be promoted at a previously unprecedented rate.

Jun Fujitani, a manager of the Personnel Strategy Department, explained the purpose of the new system this way: "The objective of introducing this system is to provide opportunities for young managers who have high potential and are motivated to improve

themselves. With this system, it is comparatively easy to give them an opportunity." (Jinjibu website)

On the other hand, managers can now be transferred to lower-grade positions while still retaining their current qualification. This is a demotion and carries with it a reduced salary. Presumably, there will be opportunities for managers to return to the job grade from which they were demoted.

Along with the adoption of the new promotion system, top management revised its personnel evaluation criteria. "Exerting the Kirin Way" defines the basic values and conduct expected of Kirin employees. All employees, especially managerial-level staff, are evaluated on how well they achieve their mission based on "The Kirin Way." The Kirin Way has four key elements: (1) a customer-focused approach; (2) a steady focus on quality; (3) innovation; and (4) integrity. The Kirin Way also notes three action stances that employees are to demonstrate: (1) challenge; (2) commitment; and (3) collaboration. Exhibit 4.3 illustrates The Kirin Way.

THE KIRIN WAY

Values	Basic Action Stance
The things we each hold important	The "3Cs" that govern the actions of all Kirin employees

A customer-focused approach
Striving to understand our customers better than any competitor; remembering the importance of communication with customers to better meet their hopes and expectations

A steady focus on quality
Relentlessly pursuing quality while perfecting our own unique technology with uncompromising attention to detail

Innovation
Thinking freely and with vision to generate new, exciting ideas; having the courage to actively propose new value

Integrity
Maintaining a fair-minded and earnest stance toward all business activities

Challenge
Taking individual initiative without fearing the results; responding with change and innovation

Commitment
Giving serious thought to all matters to see their true nature; assuming responsibility for meeting goals and fulfilling the roles assigned to us

Collaboration
Working together as a team; joining forces to cooperate and connect

Exhibit 4.3 The Kirin Way

Source: Kirin Group CSR Report 2007, adapted by author

Top management also introduced a feedback process, from subordinates to superiors, as a part of "The Kirin Way." This process was introduced incrementally. Leaders are not graded as in some 360° feedback processes currently popular in the United States; instead they ask subordinates to "diagnose leaders." After a leader has been "diagnosed" by his

subordinates, the results are reported to the leader's manager, who also diagnoses the leader using the results as one of several points of reference.

4.3.2 Constructing a Mechanism to Help Individuals Become More Autonomous

In 2004 the head of the Personnel Department redefined the evaluation system at Kirin—Management by Objectives (MBO)—introduced in 1990. He not only redefined "Respect for People," but he added "Self-control" as a criterion that he hopes will encourage employees to exert "The Kirin Way." He changed the name of the evaluation system to MBO-S (Management by Objectives and Self-control) in 2004.

MBO was first defined by Peter Drucker in 1954. It aims to increase organization performance by aligning goals and subordinate objectives throughout the organization. In MBO systems, objectives are written down for each level of the organization, and individuals are given specific aims and targets. As Heller and Hindle (1998) state:

> The principle behind this is to ensure that people know what the organization is trying to achieve, what their part of the organization must do to meet those aims, and how, as individuals, they are expected to help (p. 303).

Kirin's top management believes that defining objectives for each employee and then comparing and directing their performance against these objectives will motivate employees and encourage them to act in an autonomous fashion. Exhibit 4.4 illustrates Kirin's current MBO-S process.
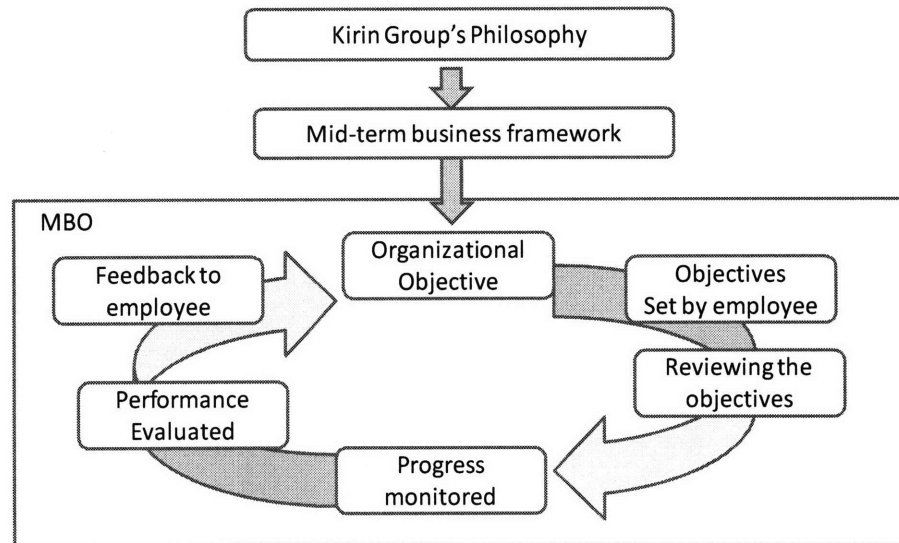
Exhibit 4.4 Six steps of Kirin's MBO-S
Source: Kirin MBO-S manual 2005, modified by author

4.3.3   Kirin and Diversity

In the past, Kirin employees were relatively homogeneous and mono-cultural. They were young men, hired straight out of university, who were expected to work for the company until forced retirement at age 60. Today, as Kirin's stakeholders grow increasingly diverse, top management believes that encouraging employee diversity will improve its corporate competitiveness and enable Kirin to display greater corporate social responsibility.

For example, "Kirin's Positive Action" (KPA) is the first step in its effort to advance employee diversity. KPA is a career development initiative aimed at focusing on the capabilities of the 20% of its employees who are women. As one measure of the program's success, Kirin's top management had set the goal of increasing the number of female executives from 31 as of March 2006 to 100 by the end of 2015. In March 2008, Mayako Kouno was appointed as Kirin's first woman CEO of Kirin and Communications Company, Limited, one of Kirin's subsidiaries.

Global competitiveness is also important to Kirin's top managers. The company aims to increase its overseas sales ratio from 19% to 30% by 2015. This will require $4.3 billion more sales compared to 2006. The plan is to accomplish this through mergers and acquisitions. Since Kirin's M&As are focused on companies in the food and health businesses, the home office needs people who can communicate effectively outside Japan. As of 2007, Kirin has more than 25 overseas subsidiaries with 7,000+ employees—and there are only 68 Japanese employees working in these subsidiaries. At the same time, of course, few non-Japanese people work for Kirin in Japan. The language barrier is one reason for this asymmetry. Yet, in order to achieve overseas sales targets and generate good working relations between companies, Kirin must increase the exchange of employees between Japan and overseas locations. I will discuss Kirin's training plan for global diversity in the next section.

4.3.4 Enhancing Leadership in Middle Management: Expanding Personnel Training Programs

Kirin's training and education programs are directed to different levels in the company hierarchy. The lifetime employment system at Kirin and low job turnover allows long-term personnel planning. But the company is also enhancing its training and education programs for managerial-level staff, especially new and middle managers. The aim is to develop the next generation of leaders in the firm. Moreover, as Kirin expands globally, it must develop global leaders who are comfortable and skilled in working across societal boundaries. Exhibit 4.5 provides an overview of Kirin's training and education programs.
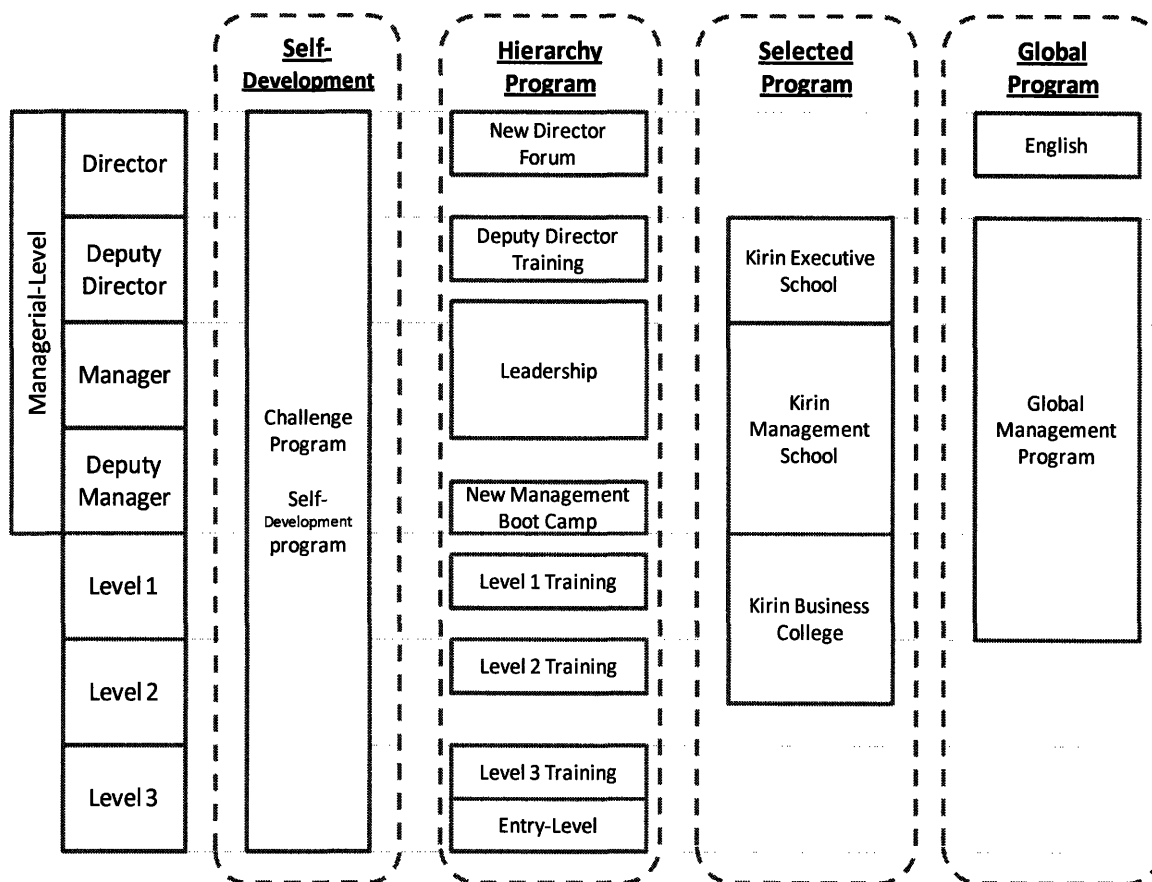
Exhibit 4.5 Overview of Kirin's Training and Education Programs

Source: Kirin Managers Handbook 2007, modified by author

Self-Development Program

In The Kirin Group CSR Report 2007, Kirin stated:

> In order to increase the value of the Kirin brand and continue to win the trust of our customers, it is vital to improve the capabilities of our people and organizations. At Kirin, we believe that growth is not possible without self-knowledge and personal development. For this reason, we are committed to enhancing our employee development program. We support each employee's personal growth through the acquisition of greater expertise and creativity (Kirin CSR Report 2007, p. 37)

There are two self-development programs for all employees: (1) the Challenge Program; and (2) the Self-Development Program. The Challenge Program is part of the

training offered by the Personnel Department. There are over 40 programs offered semiannually, and employees apply to attend a particular program. Participants personally pay the training fee, which ranges from $100 to $300. This program used to be free, but the Personnel Department changed its fee policy for the Challenge program at the end of 1990s. It was thought that if those attending the program had to pay a small fee from their own pockets, the number of serious participants would increase.[7]

The Self-Development Program offers financial aid to employees who wish to enroll in training and education programs offered by outside institutions. The number of employees taking advantage these training programs has increased in recent years.

Middle Management Programs

Kirin has four levels of managerial staff and three levels for employees (refer back to Exhibit 4.5), and the company provides programs for all levels. In the past, the Kirin Personnel Department prepared training and education programs mainly for non-managerial employees. Today, presumably because of a rapidly changing business environment, all managers need enhanced skills. The Personnel Department currently offers programs on developing coaching skills, communication skills, and more recently, English language skills. For high-level managers, such as directors and deputy directors, the Personnel Department focuses on developing leadership skills through discussions on corporate strategy.

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[7] According to sources in the company and my own experience, the change has apparently reduced the number of participants "who just wanted to visit Tokyo" where the training programs were held rather than learn from the program.

Selected Programs

Selected Programs first started in 2002, when they were announced by Kirin President Aramaki in his "New Kirin Declaration." Like other traditional Japanese companies, Kirin did not provide programs for those thought to be the most talented employees because many felt this could negatively affect the motivation of employees who were not selected to attend a program. However, Aramaki said he realized that Kirin needed excellent young managers who are able to lead and reform the company in order to sustain future growth. Top management in the Personnel Department thought the training and education programs offered by the company at that time were not sufficient to foster such managers.

As a result, the Kirin Management School was established (refer back to Exhibit 4.5). The first class was held in 2002 with 16 students. Students are selected from among managers and deputy managers who apply via an essay test and an interview conducted by executives. Applicants are chosen through an open-recruitment system or appointed by a department's general manager. Students are labeled "high-potential managers" and are approximately 40 years old. The program began as a one-year program consisting of ten three-day or four-day concentrated periods. In addition, every month participants receive an assignment designed to speed their acquisition of management knowledge. One participant said to me that he *"had to study two hours every day to finish the assignment after or before his daily work."* After finishing the program, participants are given an opportunity to transfer to a subsidiary in order to apply their newly acquired skills. Nine out of sixteen in the initial class were transferred. This program is held every other year. In 2004, there were 11 students

(out of 33 applicants) and, in 2006, there were 11 students (out of 37 applicants). Currently, in 2008, 14 students are in the class (out of 60 applicants).

Top management in the Personnel Department also expanded the Selected Program for deputy directors at the Kirin Executive School. In 2003, there were 18 participants in the first class. In 2004, 2005, and 2007, there were 12, 15, and 16 participants, respectively. This program is also held every other year and is eight months long. At the end of the program, participants are asked to suggest a management proposal. The participant who demonstrates obvious ability in this program receives an early promotion to a director position.

In 2007, the Personnel Department launched a Selected Program for young employees in the Kirin Business College. Its purpose is to teach young managers how to develop and evaluate a business strategy. There were 24 students in the first class, chosen from 51 applicants. This program is one year long and consists of three months of e-learning and 16 days of class lectures. At the end of the program, participants propose a business plan to their instructors.

Global Program

Since Kirin's core business has long been the domestic alcohol business, there was little need for globalization and related skills among managers and employees. However, the announcement that the company aims to increase its overseas sales to 30% by 2015, as well as the 2007 acquisition of National Foods (Australia's national food company), are indications that Kirin is making globalization a priority. Although Kirin has sent one or two

employees abroad to study at business schools (such as the MIT Sloan Fellows Program[8]) every year for over 30 years, such programs had limited ability to increase the company's global initiatives.

A new program is now offered, Global Management Program. The program is modeled after various MBA programs and emphasizes English as a second language (ESL). The curriculum includes classes on learning about different cultures, overseas business law, and crisis management. It is a one-year program consisting of 24 every-other-Saturday classes. Ten students were selected for the first program, which is only for high-potential managers and employees. Participants are appointed by the Personnel Department. Exhibit 4.6 illustrates how participants are selected.
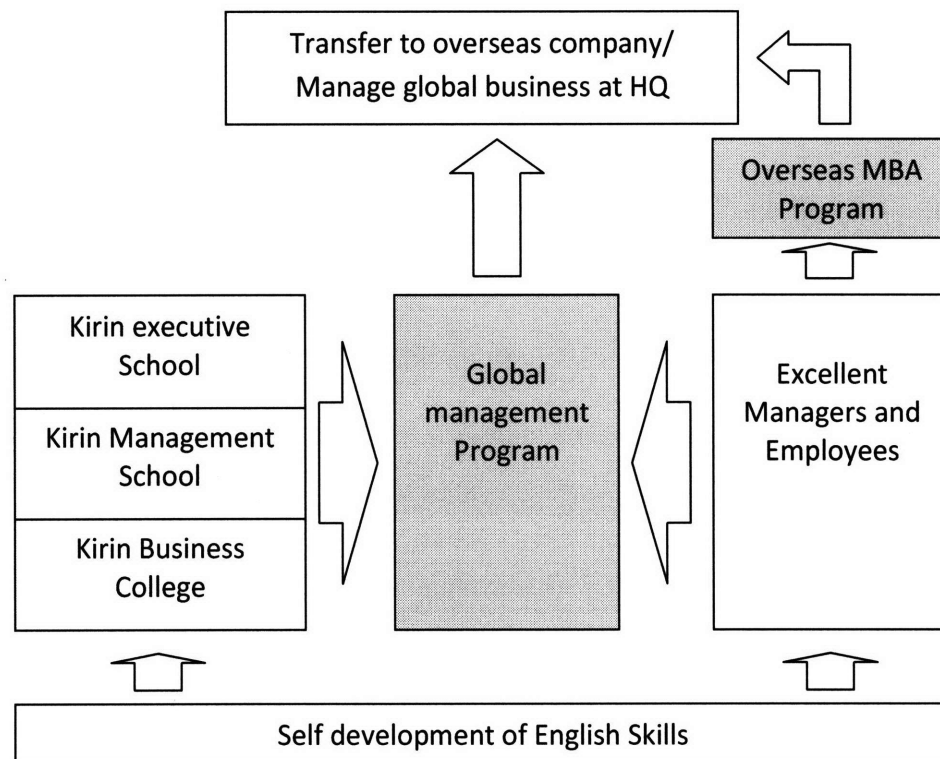
Exhibit 4.6 Global Program
Source: Kirin Personnel Department Document 2008, modified by author

[8] Kirin has a long history of sending managers to MIT Sloan Fellows Program. The first Kirin Sloan Fellow was Michikazu Okada (SF '76). Kazuyasu Kato (SF '86) became President and CEO of Kirin Holdings in 2006. I am the 21st Sloan Fellow from Kirin.

4.4　Organizational Changes

Despite declines in key markets, the "New Declaration" issued by the President, and the changed personnel system, most employees have not changed much. I believe most employees were aware of the company's troubles but did not understand them; they thought of them as something they could do little about. The typical response was: *"Somebody else will do it, not me."*

To change these beliefs (part of the organization's culture), the V10 Project was launched in 2004. The General Manager of the V10 Project noted its two core objectives in a project position paper: (1) build an organizational environment in which every employee thinks for himself or herself and then acts; and (2) create a structure in which the opinion of the front line in the company is listened to by management. The "V" of V10 project stands for the "3Vs": (1) *Vision*: think of the future of the company; (2) *Value*: understand and act based on Kirin's values; and (3) *Victory*: acquire the largest market share. The "10" stands for 10 years from now.

I will explain the cultural changes initiated by V10 project by using Edger Schein's (1999) framework. Exhibit 4.7 displays his framework for change.

Stage One: Unfreezing
Disconfirmation
Creation of survival anxiety or guilt
Creation of psychological safety

↓

Stage Two: Changing
Cognitive Redefinition
Imitation of and identification with role models
Scanning for solutions and trial-error learning

↓

Stage Three: Adoption
Incorporation into self-concept and identity
Incorporation into ongoing relationship

Exhibit 4.7 Model of Organizational Change

Source: Schein 1999, modified by author

Stage One: Unfreezing

The New Kirin Declaration alone was not enough to create survival anxiety or guilt among employees. The General Manager of the V10 project then decided to hold a company-wide forum to discuss the Kirin philosophy and vision with employees who were interested. One hundred and eleven active employees from all over Japan attended the first forum. These volunteers apparently felt a sense of urgency about the need to change, and upon their return from the forum, they took leading roles in transforming their colleagues. At the forum, participants discussed Kirin's philosophy and vision and translated both into their own words in order to deeply understand the meaning and be able to communicate it to others. Then they put their words onto posters and leaflets for other employees. The forum encouraged participants who were committed to change to hold informal forums in their sections of organization. This provided opportunities for other employees to think about Kirin's

philosophy, vision, and values. Perhaps "psychological safety" was created via these small informal forums, an element of the change process that Schein considers critical.

Stage Two: Changing

To increase the number of early adapters, the manager of V10 project held several forums in each department. At the end of each forum, the President of Kirin or top management of the department met with employees and answered their questions. Talking with the President or top department managers seemed to motivate employees and certainly sent a message that top management thinks change is crucial. Simultaneously, the General Manager of the V10 project passed along the firm's philosophy, vision, and values to every employee, using monthly leaflets and promotional video tapes. He also offered an official screen-saver to employees so the V10 slogan could be seen everywhere in the company. To accelerate the spread of the desired change, the General Manager of the V10 project held a forum for middle managers as well.

Stage Three: Adoption

The V10 Project started in 2004. It is still at Stage Two. Although the "adopters" are increasing, the number is still not enough to significantly change the organization culture. In a 2007 position paper, the V10 General Manager stated the challenge he faces:

> There are few people who really understand the objectives of V10 project. Most people think the V10 Project just as forums. I understand changing the climate takes time, however unfortunately, our organization still has a climate in which people agree with the plan in general but will not act accordingly. I can see many informal networks burgeoning in our organization but those are mainly in the same department and we need to be building informal networks across the borders of the departments.

He and other V10 project member will continue challenging the status quo through both formal and informal forums and continue to support the early adopters.

4.5   Summary

Since the New Kirin Declaration was announced in 2001, Kirin's top management has changed Kirin's personnel system including revising its evaluation systems, reinforcing training and education programs, and trying to change its organization culture. In the following chapters, I explore other approaches that Kirin might undertake to improve leadership capabilities in the firm. Chapter Five considers a leadership model. In Chapter Six, I examine what General Electric has done in the area.

CHAPTER 5

Leadership

"Where does leadership start? It starts with someone wanting to make a difference... When people are truly motivated toward a goal or a vision, they will do it, even if they have to change themselves."

--Professor Deborah Ancona, *MIT Sloan*, Winter 2008

This chapter explores the leadership strengths and weaknesses among young Kirin leaders, the training programs that have been designed to improve leadership, and comparing them to the leadership framework developed by the MIT Leadership Center headed by Deborah Ancona (2005).

5.1 Overview of Leadership Research

Like other research domains such as strategy, marketing, and management, leadership research has changed along with changes in the business environment. Before World War II, leadership theory emphasized individual traits based on the idea that a leader's personality leader is most important. Physical traits, individual abilities, and personality characteristics, (such as introvert or extrovert) were considered crucial. Current research suggests that today's leaders are honest, inspiring, self-confident, and adaptive (Ancona, 2005).

Although these traits are important, it is not enough to differentiate talented leaders from others, so the focus of leadership theory has shifted to the behavior or style of the leader

(Ancona, 2005). For example, as I learned in a leadership class given by Professor John Van Maanen[9] at MIT, some leaders are more task-oriented while others are more relationship-oriented. A person is not born a leader, but he/she becomes a leader through experience. Behavior and style are "learnable" and subordinates can copy them in an effort to become a leader.

In the 1960s and 1970s, leadership research took a "contingency" approach, which suggested that how one should act as a leader depended on the nature of the task and the environment (Ancona, 2007). For example, the leadership actions of a sales manager and a plant manager would differ; the role of leader would be different in ordinary times or in times of emergency. According to Ancona, "This approach led to elaborate decision trees for picking a leadership style. But something of the luster and dynamism of leadership seemed to get lost in this approach" (2007, p.1).

In the 1980s and going forward, the emphasis moved to change, with research focused on transformational leadership (Ancona, 2007).

5.2   MIT Leadership Framework

The Leadership Framework was developed by four MIT Sloan faculty members: Deborah Ancona, Tom Malone, Wanda Orlikowski, and Peter Senge. The framework integrates a number of prior leadership theories while focusing on what leaders actually do. Ancona states, "This framework seems particularly relevant in the uncertain and rapidly changing world in which we currently find ourselves. It allows us to view leadership not as a person, but as a capacity that individuals and groups possess" (2007, p. 1).

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[9] Van Maanen is my thesis advisor.

The MIT Framework rest on several assumptions:

1) Leadership is distributed. Leadership is not solely the purview of the CEO, but can and should permeate all levels of the firm (Senge, 1996).

2) Leadership is personal and developmental. There is no single way to lead. The best way to create change is to work with one's particular capabilities and constantly work to improve and expand those capabilities.

3) Leadership is a process that creates change. Leadership is about making things happen—contingent on the context. Leaders may create change by playing a central role in the actual change process, or by creating an environment in which others are empowered to act.

4) Leadership develops over time. It is through practice, reflection, following role models, feedback, and theory that a person learns leadership.

5.2.1   The Four Capabilities of Leaders

The framework (see Exhibit 5.1) has four capabilities: Sensemaking, Relating, Visioning, and Inventing. In addition, leaders need to develop a "Change Signature," one's own unique way of making change happen (Ancona, 2005).
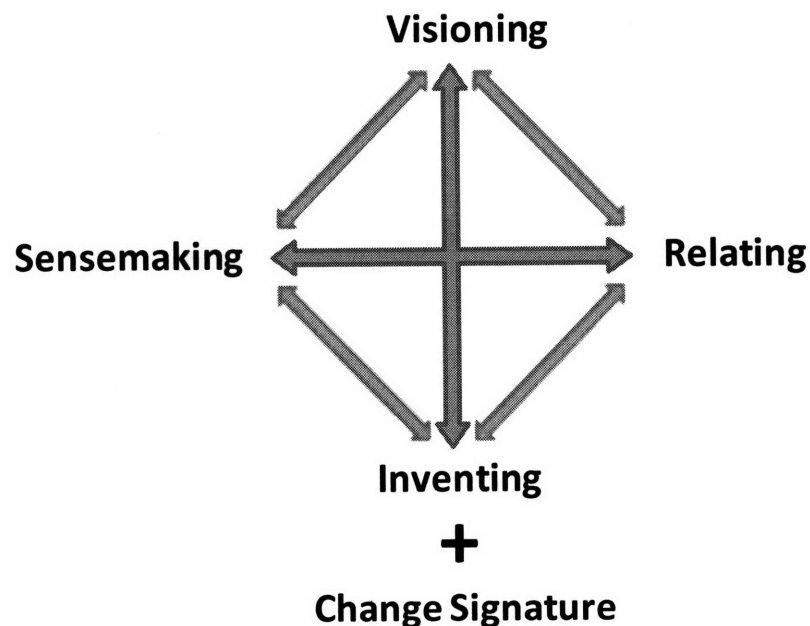
Exhibit 5.1 Leadership Framework

Source: Ancona 2005, modified by author

(1) <u>Sensemaking</u>

Weick (2001) likens the process of sensemaking to cartography. As in making a map, one must have a clear sense of the current situation. However, since situations keep changing rapidly in today's world, all one can do is create temporary understandings in a dynamic flow (Ancona, 2005). Leaders must capture the complexity of their situation and be able to explain it to others simply. Exhibit 5.2 provides tips for effective sensemaking.

<u>Tips for effective sensemaking:</u>

1. Seek many types and sources of data. Get information from customers, suppliers, competitors, other departments, and investors. Combine financial data with visitors to the shop floor.

2. Involve others in your sensemaking. Verbalizing what you think you are seeing will help you to hone your view. Input from others will help you test your view against other realities and develop a shared map of the situation.

3. Do not simply apply your existing frameworks and overly them on the situation. Let the appropriate map emerge.

4. Move beyond stereotypes. Try not to describe the world as good guys and bad guys, victim and oppressor, or marketer and engineer—push for what's behind the labels.

5. Learn from small experiments. One of the best ways to figure out how any system works is to make a small change in the system and see what happens. Organizations are such systems.

6. Use images, metaphors, or stories to try to capture and communicate critical elements of your map.

Exhibit 5.2 Tips for effective sensemaking

Source: Ancona 2007, adapted by author

(2) <u>Relating</u>

According to Ancona, relating centers on the leader's ability to engage in "inquiry, advocacy, and connecting" (p. 2). *Inquiry* and *advocacy* are terms used in the pioneering work of Argyris and Schon (1996). "Inquiry" is the ability to listen and understand what others are saying. When one listens to others, he/she must be able to think of what kinds of data made the other say that, rather than simply reacting to what was said. Inquiry requires the leader to suspend judgment and to listen without imposing his/her own point of view.

"Advocacy" is the ability to communicate his/her thoughts to others logically, basing judgments on reliable data and comparing alternative ideas. It involves being clear about one's own point of view and trying to influence others of its merits while also being open to alternative views.

The third area of relating is "Connecting." In a business world, leaders are dependent on others to get work done. Thus, it is important to connect with others. Connecting involves cultivating a set of people who help each other to accomplish their goals. It is building collaborative relationships with others and creating coalitions for change. Exhibit 5.3 provides tips for effective relating.

<u>Tips for effective relating:</u>

1. Spend time trying to understand the perspective of others within the organization and try to withhold judgment while listen to others.

2. Encourage others to voice their opinions — What do they care about? How are they interpreting what is going on?

3. Be clear about what your stand is and how you get there.

4. When you have an idea, think about how others might react to it and how you might best explain to them.

5. Think about your connections— Do you feel good about your nature of relationship? How well do you relate to others in terms of giving and receiving career advice, help in getting work done, job hunting, thinking through difficult problems, and personal support. Think through how you can strengthen these relationships and build new ones.

Exhibit 5.3 Tips for effective relating

Source: Ancona 2007, adapted by author

(3) <u>Visioning</u>

Visioning is the ability to outline a future that others find appealing. When the vision is genuine (not just the ubiquitous and often ambiguous corporate vision statement), people are motivated and work hard because they want to do so (Senge, 1990).

A vision is like a dream others share. Through shared visions, people become bound together around a common identity and sense of destiny (Senge, 1990). Visions also provide a sense of meaning that others can attach to their work. Exhibit 5.4 provides tips for effective visioning.

<u>Tips for effective visioning:</u>

1. Develop a vision about something that excites you or that you think is important. Your own excitement is catching. Listen to what others find exciting and important to them. Discover ways to blend visions and build a shared vision of the future.

2. Frame the vision with ideological goal. Provide a rationale as to why people should care and what good can be achieved by the vision.

3. Use stories, metaphors, and analogies to paint a vivid picture of what the vision will accomplish.

4. Practice creating visions in many arenas. For example, think about creating a vision for yourself as well as for your team, organization, or community group.

5. Enable those around you by pointing out that they have all the skills and capabilities needed to realize the vision.

6. Embody the key values and ideas contained in the vision. To prevent cynicism it is important that you "walk the talk."

Exhibit 5.4 Tips for effective visioning

Source: Ancona 2007, adapted by author

(4) Inventing

This capability involves changing the way people work together. Inventing is the ability to create processes and structures to achieve a vision. They can be very small or very large in scale. For example, changing a process in the belt conveyer line in a plant is an example of a small invention; restructuring a company is a large invention. Inventing is a focus on continuous improvement in how work gets done. It is related to creativity. People need to find new ways to do things when they meet obstacles they have not encountered before. Inventing often goes hand-in-hand with sensemaking. A leader who is constantly aware of what is going on with his/her work, his/her people, and the environment is also aware of problems that are arising and processes that are not working. This awareness begins a series of iterations between finding problems and inventing solutions. Exhibit 5.5 provides tips for effective inventing.

Tips for effective inventing:

1. Maintain focus on improving the ways that people are working together in your team and organization.

2. When a new task or change effort emerges, think through how it will get done: who will do that, by when, in what configuration. Consider what new things are needed to enable this action.

3. Play with new and different ways of organizing work — examine alternative ways of grouping people together, organizing their internal interaction, and linking across different groups.

4. Blend sensemaking and inventing. As new issues are discovered, use this knowledge as an opportunity to improve services to customers, suppliers, and employees.

Exhibit 5.5 Tips for effective inventing

Source: Ancona 2007, adapted by author

5.2.2 The Change Signature

The four capabilities of sensemaking, relating, visioning, and inventing are complementary. Ancona notes that these four capabilities are always combined most beneficially when they are tuned to a particular situation. She states:

> These four capabilities are only a tool. It is the change signature that determines how and what the tool is used for. While the capabilities focus on what leaders do, the change signature is about who a leader is. It develops slowly based on experience and skills. It is a key part of the leadership model because it represents who we are as leaders.
>
> The second aspect of the change signature is the way an individual typically embodies the four capabilities and the characteristic way in which that person makes change happen. Leaders learn through experiences what is most important to them and how they can be most effective with others. This process is facilitated when leaders take time to reflect on their experiences (2007, p. 7).

The change signature develops gradually and is based on business experience. Learning through various experiences, leaders develop their abilities and expand their capacity in organizations. The change signature is what distinguishes one leader from others. Kanai (2002) states that a "quantum leap experience" is important to develop leadership capabilities. The quantum leap experience is an experience that enlarges a leader dramatically, like the molting of a crawfish or the transformation of a butterfly. For example, a quantum leap experience could be transferring to an overseas department, becoming a manager for the first time, or being designated as leader of a new project.

Ancona concludes her leadership paper with the following words:

> Leadership ... is a combination of four capabilities and a change signature. It is distributed across individuals, and involves sensemaking, relating, visioning, and inventing. By engaging in these activities over time, leaders begin to develop their own distinct way of making things happen. Through a variety of experiences leaders can further develop their capabilities, build leadership capability in an organization, and create a better understanding of their own values and skills (2007, p. 9).

5.3 Kirin's Leadership Model

Kirin's young leaders' style of leadership can be represented by using Ancona's framework (see Exhibit 5.6). I have adjusted the size of each circle to represent my assessment of the strengths and weaknesses of Kirin's young leaders.
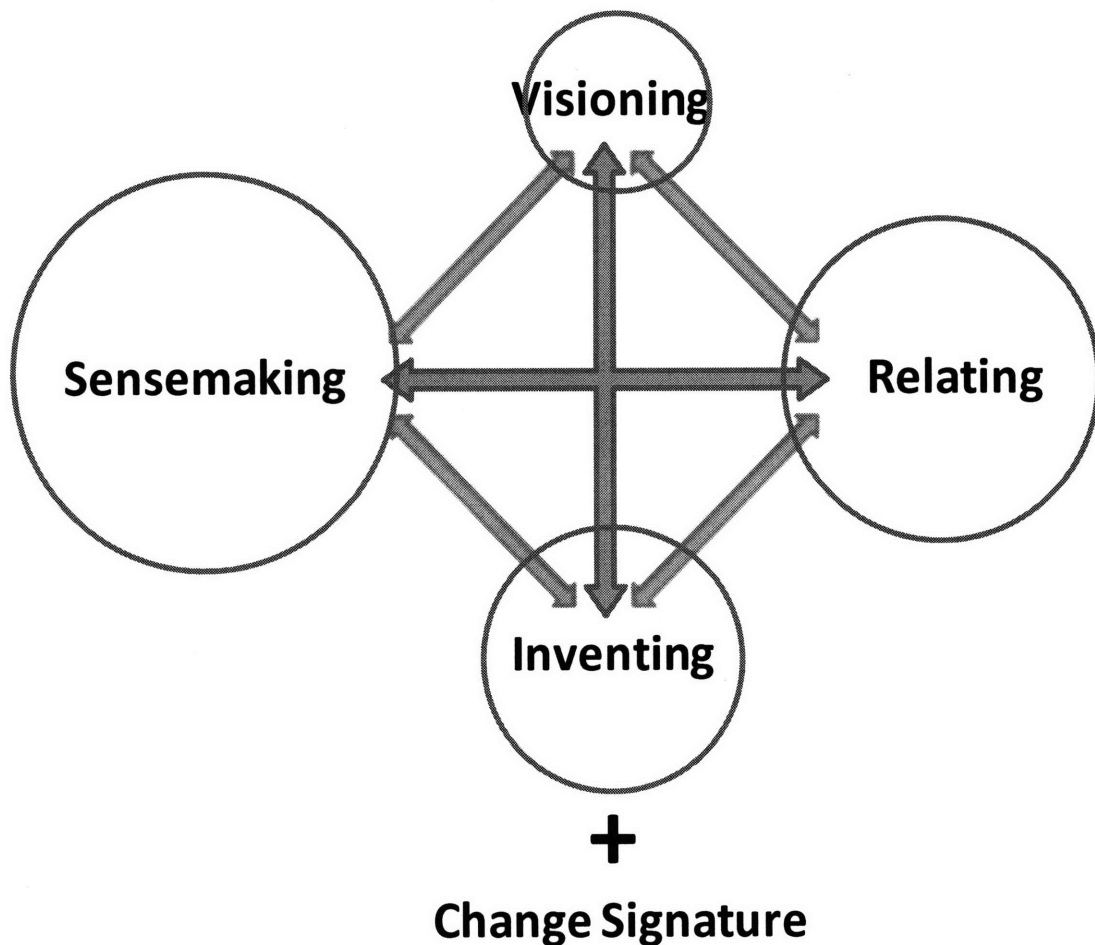

Exhibit 5.6 Kirin's Leadership Framework

Source: Ancona 2005, modified by author

(1) Sensemaking (strongest capability):

Kirin has worked hard to strengthen this capability since 2001. Kirin lost its position in the market because it did not accurately predict and respond to customer trends. Since then, Kirin top management has encouraged employees to take a customer-focused approach.

To do this, the General Manager of the Sales Department changed its sales focus from "price-driven sales" to "value-driven sales." Before 2001, Kirin sales representatives generally used promotion incentives to sell their products. For example, if a sales representative wanted to display Kirin products in a prominent location in a supermarket, he competed against the sales representatives from other companies by offering promotion incentive money rather than proposing a better event. Today the Sales Department limits the amount of promotion incentive money available to sales representatives, instead asking them to propose better ideas than their competitors. It was difficult, however, for sales representatives to change their way of working.

In order to overcome some of the difficulties, the number of staff in the Sales Development Division was increased. They traveled to regional sales branches frequently, they collected best practices in the area, and they advised sales representatives to adopt these best practices. They also created an intranet where sales representatives could find best practices in other branches. Although some sales representatives refused, the department as a whole gradually transformed its sales tactics. Before this change, sales representatives focused on competitors; now they focus on customers. Kirin's market share began to rise in 2004 (see Exhibit 5.7).
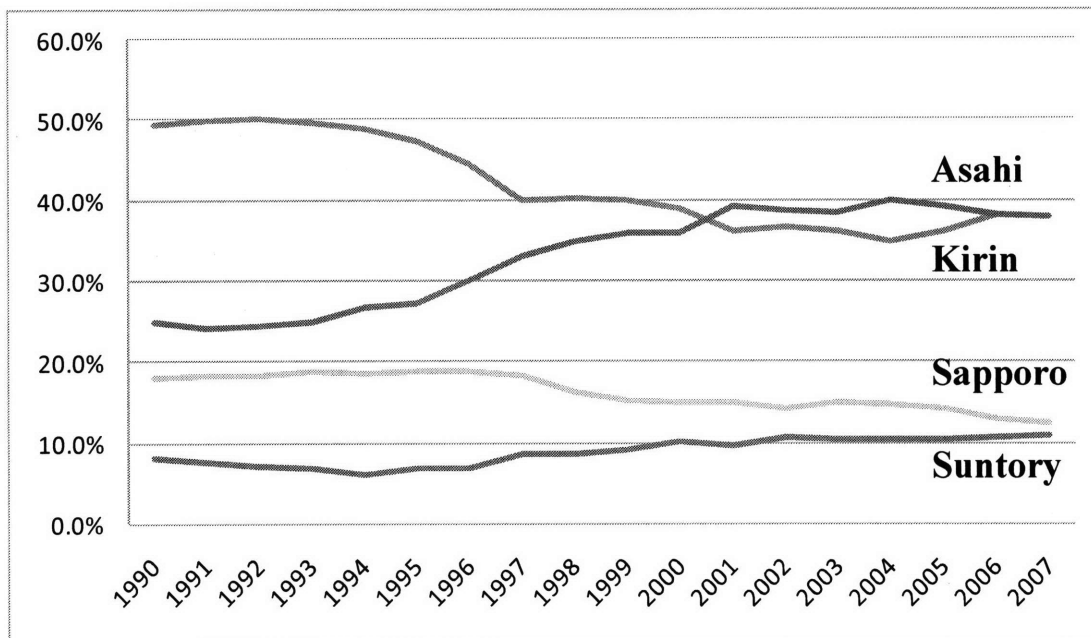
Exhibit 5.7 Market Share in Japan (beer + happo-shu + new genre)

Source: Kirin Brewery, modified by author

Top management also established a sales and marketing subsidiary, Kirin Communication Stage (today known as Kirin Merchandising (KMD)), to increase communication with the market. KMD is a special subsidiary focused on two business segments: (1 chain retail stores such as supermarkets, convenience stores, and discount stores; and (2) restaurants that sell Kirin draft beer. Top management encouraged sales representatives to include market information in their daily reports. Thanks to new information technology, all employees can see the information via the intranet. This gives marketing and product development staff in the head office easy access to real, up-to-date market data and helps them respond quickly to even small changes in the market.

Another example of Kirin's new customer-focused approach is responding to customers' opinions. Kirin has various functions in place that allow the firm to rapidly incorporate customer ideas into its business activities. In 2001, top management added an

"Information Desk" to its Customer Center and also established Customer Satisfaction Department. A new customer information system was introduced in 2002. This system shares customers' comments throughout the company. The Kirin Customer Center created a basic policy, guiding principles for conduct, and company rules as part of "Our Promises to Customers." In the promises, top management is committed to responding to Kirin customers fairly, impartially, quickly, and in good faith. A recent report from the Center stated:

> We investigate all feedback we receive on our products, and report the results. Our goal in doing this is to recover the customer's trust and create products that our customers will feel secure about. (Kirin CSR Report, 2007)

In an example from my own experience, when a sales representative receives a report from the Customer Center about a product complaint from a customer, the sales representative in charge of that customer's area has to call the customer within one hour after he gets the report. He then makes arrangements with the customer to pick up the product for inspection. After picking up the product, he sends it to factory or laboratory for inspection. Then he visits the customer again with results of the inspection.

The Kirin Customer Center publishes all customer contacts internally. This gives everyone in the group—from top management to rank-and-file employees—an awareness of any problems that may be occurring with customers. Exhibit 5.8 illustrates Kirin's customer care system.

■ The customer response flow

Customers

Telephone Fax
Postal mail Home delivery

Telephone Fax
Postal mail Home visit

Customer Center

Sales Dept. ↔ Retailer

Top management

Kirin Customers Information Network*
(Kirin Brewery's standard customer information system)

Related divisions (head offices)

Production divisions/laboratories
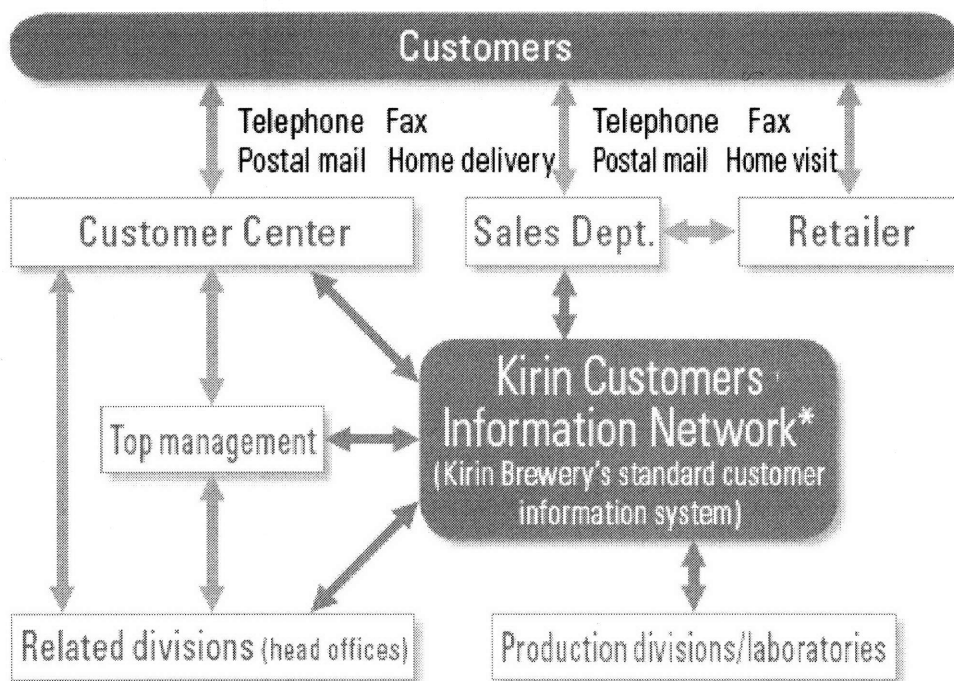
Exhibit 5.8 Kirin's customer response flow

Source: Kirin CSR Report, 2007, modified by author

(2) Relating (Second strongest capability):

My assessment finds that relating is the second-strongest capability at Kirin. I explain this using Ancona's three terms: inquiry, advocacy, and connecting.

Inquiry: Like many large Japanese companies, almost all new employees at Kirin joined the company just after graduation from college. They learn their jobs through on-the-job-training delivered by senior employees. It was natural for the senior employees to use "teaching' instead of "coaching" to train the new employees. Most employees became accustomed to this "teaching" model and rarely learned "inquiry skills," which Ancona believes are necessary to motivate subordinates and reinforce individual abilities.

The General Manager of Kirin's Personnel Department said in a private conversation with me that on-the-job training through teaching did not help individuals become more autonomous. He decided to institute a "coaching skills" program to train all managers who have subordinates. The theme of the program was "Listening and Dialogue." I was one of the trainees of the 2005 program, and these words from the instructor impressed me:

> Everyone has an answer. Let him think and speak about his opinion first. The leader should be patient and has to wait for him to start speaking. When he finds his answer, ask him why and how he reached the opinion, and then you give your opinion and compare both opinions. At the end of the process, he will be more motivated than if you had simply given him your opinion.

Since all employees knew that all managers had participated in this training program, managers begin immediately to use their new skills after returning from the program.

Advocacy: According to Ancona, advocacy is a skill that a leader can learn through experiences such as leading team meetings, explaining policies to members of a department, training subordinates, negotiating with customers, and speaking up in public meetings. Leaders also have to develop logical thinking and analyzing skills to persuade other people. I believe Kirin's young managers need more experience in these kinds of tasks. Since they usually do not have subordinates until they are around 40 years old, they have few opportunities to learn advocacy skills when they are younger.

Connecting: The lifetime employment system and a low rate of career change mean that Kirin employees remain with the company for a long time. This works well in terms of the "DOUKI"—a strong informal network within the company comprised of colleagues who entered the company in the same year. DOUKI members communicate across the hierarchy.

Moreover, the common job transfer system in the company enhances relationships among employees in different units and departments of the firm. Many managers had experience working in the same region or under the same boss, and such experiences create a sense of fellowship. The strong relationships and informal networks formed through its hiring and rotational policies smooth the work flow and contribute to a strong sense of common purpose.

Recently, the V10 project (described in Chapter 4) increased the number of formal forums held for employees across units, functions, divisions, and companies. These enhance the relationships between employees who might not otherwise have contact with one another.

(3) Inventing (Third capability):

As a manufacturing company, Kirin continues to improve production processes in many of its plants. For example, Kirin now has sophisticated information technology that is used for its forecasting and procurement systems. The company now shares information with suppliers, wholesalers, and retailers throughout the system. Kirin has established a "Fresh in Time" (FIT) system, similar to the "Just in Time" (JIT) system, in order to reduce inventories but still meet immediate demand. Kirin's strength is in improving processes (but typically only when it has a clear vision). Inventing has strong a relationship to "Visioning" which I discuss next.

(4) Visioning (Least capability):

Visioning is the least developed capability among young managers in Kirin because of the slow career progress available in the company. Slow career progression has the effect of encouraging young managers to avoid thinking about the "big picture." They are good at

setting and achieving short-term objectives, but it is difficult for them to think more broadly about the company since they have little knowledge of the firm as a whole. Most sections make and achieve short-term objectives set by the division's strategy, but these objectives are mostly numerical targets that seem unattached to the firm's vision.

A second barrier to visioning is the barrier between divisions. Prior to 2001, there were major three divisions in Kirin: production, logistics, and sales. These divisions developed their own strategies independently. Conflicts between divisions were common. Division leaders concentrated on achieving their division's objectives rather than those of the overall company. Furthermore, managers in each division knew little about the other divisions. After the New Kirin Declaration in 2001, CEO Aramaki restructured the organization to break down the barriers between divisions. In 2006, he put the three divisions into one in-house company and designated a company president. Now there is much more cooperation across divisions as a result of this structural change.

The New Kirin Declaration and V10 project also help strengthen the visioning abilities of young employees. Kirin now offers young employees many opportunities to discuss the strategy of the entire company and encourages employees to talk about the strategy among themselves and with their managers.

A third barrier arises from the intense focus on Kirin's alcohol business. Beer is Kirin's core business, with the alcohol business earning 71.5% of operating income for the firm in 2006. Since the Kirin Brewery was the parent company before the holding company was established in 2007, employees had the sense that it was the "star" or "central" Kirin business. Leaders focused almost entirely on the alcohol business, and people who transferred to a subsidiary away from Kirin Brewery were often disappointed and felt they

had been demoted. Today, Kirin is aiming to become the number one food company in Asia and Oceania, and Kirin's leaders must think of the company's total business. The Kirin Holding Company is now run by transferred managers and employees from various group companies, and young leaders who are better prepared to understand and develop a comprehensive strategy for Kirin Group are emerging in the holding company.

Internationalization is also becoming important for leaders in Kirin. But, at present, little is being done in the holding company to develop a global perspective among Kirin managers.

5.4   Summary

Kirin's leadership strengths are Sensemaking and Relating. The company is working to improve the capabilities of Visioning and Inventing but it still has a way to go. There are not enough opportunities for young employees to experience the role of leader at an early age in the company. A number of newly promoted managers do not have direct reports; their official status changes to manager but they are without subordinates. Hence, new managers play the same role as before. Since they are not likely to be assigned subordinates before they reach the age of 40, they have little time to develop leadership skills because they will retire at age 57. I explore this problem further in Chapter 7.

CHAPTER 6

Comparative Study: General Electric

As of March 2007, General Electric (GE) was the world's second-largest company in terms of market capitalization, at approximately $359 billion (*Forbes*, 2007), ranked only behind ExxonMobil. *Fortune* ranked GE first in its list of the "Top Companies for Leaders 2007." This ranking of world companies was based on the opinions of top management across a large number of firms as to which companies they believed were doing the best job of developing leaders. *Fortune* noted:

> For 50 years companies have tried to emulate GE's legendary Crotonville training facility, a place where thousands of employees have honed their management skills. But GE now generates 50% of its revenue overseas - over half its employees work abroad too - so it has taken Crotonville on the road to hot spots around the world like Shanghai, Munich, and Bangalore. GE employees can also tap online leadership workshops through the company's intranet. "It doesn't matter where you are," says Susan Peters, head of executive development, "you will get access to the same kind of training. (*Fortune* website)

When CEO Jack Welch retired from GE in 2001, shareholders worried about whether any successor could sustain the explosive pace of change and growth of the Welch era. However, Jeff Immelt, Welch's successor, has kept GE growing. The company's revenues reached $160 billion in 2006—1.5 times the annual revenue when Immelt took over the company (see Exhibit 6.1).
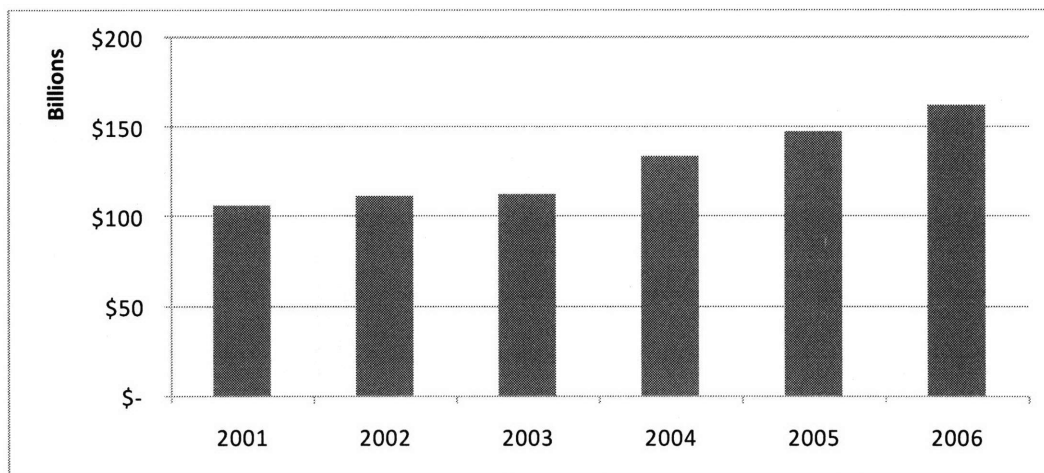
Exhibit 6.1 General Electric's consolidated revenues

Source: GE annual report 2006, modified by author

Fortune chose Welch as "Manager of the Century" in 1999. Among the contributions Welch is credited with by *Fortune* is GE's structure and leadership development activity. This chapter looks more closely at the Welch legacy, the leadership development program at GE.

6.1 Strong Commitment of Top Management

When new things are done in a company, the approval of management is necessary. The bigger a project, the higher the level of management of approval required. Without the commitment of top management, big projects would be impossible or possibly interpreted by management as rebellion. In order to improve and develop leadership within a firm, strong commitment from the top of the organization is crucial. The human resource department cannot do it alone.

GE is famous for spending considerable financial resources and engaging top managers in its leadership development activities (Yamakawa et al., 2008). For example,

when Welch reconstructed the Crotonville management development facility (today's John F. Welch Leadership Center) in the mid-1980s, he spent $45 million on new buildings and improvements. Yet he was cutting costs almost everywhere else in the company. The current GE web page notes:

> Worldwide, we invest about $1 billion every year on training and education programs for the people of GE. The results can be measured in the increasing leadership capabilities of our own people and ultimately in the value and opportunity generated for our customers and their communities. (GE website (a))

Welch and other GE top managers taught at Crotonville as lecturers. Immelt also travels to Crotonville three or four times a month to participate in leadership training programs (Yamakawa et al., 2008). Immelt emphasizes his commitment to the development and evaluation of people. In 2005, he said publicly:

> Developing and motivating people are the most important part of my job. I spend one third of my time on people. I spend the entire month of April in our talent development process called Session C. I spend most of my time on the top 600 leaders in the company. We don't run it like a big company. We run it like a big partnership, where every leader can make a contribution not just to their job, but to the entire company (GE Annual Report, 2005).

6.2   Openness to All Ages

When Immelt took over as CEO, he was 44 years old. Welch was 45 when he became CEO. From the Japanese perspective, it seems odd that the CEO of the world's second-largest company is in his forties. Yet there are a number of Western companies with young CEOs. For example, Steve Case became CEO of AOL at 42; Steve Ballmer (Microsoft) and Carly Fiorina (Hewlett-Packard) became CEO when they were 44 years old (Yoshida, 2002).

GE apparently provides a fast managerial track for talented people regardless of age (Nishigashira, 2000). Talented employees are able to assume challenging and highly responsible jobs when they are young. If they perform well on a tough assignment, they are assigned to more responsible jobs. Consider the career of Yoshiaki Fujimori, Senior Vice President of GE, President and CEO of GE Money Asia, Chairman of GE Consumer Finance, and Chairman of GE Japan (see Exhibit 6.2).

Prior to joining GE, Mr. Fujimori worked for Nissho Iwai (Japanese large trading company) in various positions of the Oil and Gas Development Division for 10 years.
1986 –Began his career at 34 years old with GE as a Manager of Business
        Development for GE Japan
1988 – Manager of Business Department Medical Systems Asia
1989 – General Manager, Business Development of Yokokawa Medical Systems
1990 – General Manager, Nuclear Business, GE Medical System in Wisconsin
1993 – General Manager, Global CT
1995 – General Manager, Global MR
1997 – Vice President of GE and President and CEO, GE Medical systems Asia
2001 – President and CEO of GE Plastics and Senior Vice President of GE
2003 – President and CEO, GE Japan and President and CEO, GE Asia
        (He assumed this position at age 51)

Exhibit 6.2 Career process of Yoshiaki Fujimori

Source: GE website (b), modified by author

GE apparently moves talented people swiftly. As the Fujimori example suggests, it is not unusual for GE to have high-ranking executives who are in their thirties (Nishigashira, 2000).

6.3 Evaluation System for Developing Leaders

6.3.1 Session C

As Immelt referred to above, Session C is an important part of the GE strategic planning system and crucial to its management development process. This has been true since the Reginald Jones era (1972-1981). According to Rothschild (2007), Session C is

intensive and serves to 'weed out' GE managers who 'don't fit the system.' Prior to Session C meeting, all key managers and professionals are evaluated and given feedback about their past performance. They are then put into one of three categories (see Exhibit 6.3.)

- Category I includes the top 20%, the "high-potential" people. For each individual in this category, a career and succession plan has to be developed and shared with the individual. These are the individuals who are selected to attend the executive management program at Crotonville and otherwise given special assignments and mentoring.

- Category II includes the next 70% of the overall population, people who are considered to be meeting their job standards but are probably not going to be promoted to senior management positions.

- Category III includes the bottom 10%, those who are given the opportunity to improve their skills and performance or they will be fired.
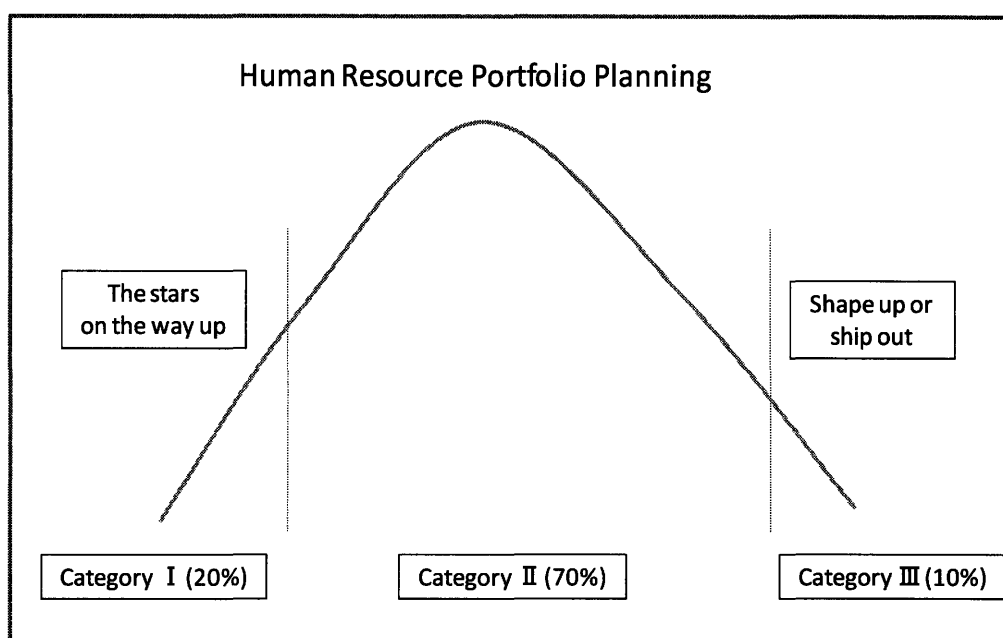

Exhibit 6.3 GE's ranking of managers (yearly)

Source: Rothschild, 2007, modified by author

During April and May each year, the CEO and SVP of corporate human resources travel to each of GE's operating units to lead Session C. The session consists of a daylong audit of the performance of various management teams and a review of potential rising talent. In October, a second Session C is held to review what has happened since spring and to ensure that spring plans were implemented. It is at this time that decisions are made about the bottom 10% of employees.

Under Immelt, the tone of Session C is a little less threatening than it was under Jack Welch. There seems to be more emphasis on developing and helping managers than on weeding them out. Moreover, there appears to be more focus on helping women crack GE's "glass ceiling," as many more women have been promoted to corporate executive positions, according to Rothschild (2007). As of March 2008, there are four women among GE's 17 corporate executives (GE website (c)).

6.3.2 Four Types of Managers and Professions

Jack Welch developed new standards for leadership at GE because he apparently wanted managers to perform at high levels. He hoped all managers would embrace the open, participative values he espoused. In 1991, he addressed the problem and its seriousness:

> In our view, leaders, whether on the shop floor or at the top of our business, can be characterized in at least four ways. The first is one who delivers on commitments – financial or otherwise – and shares the values of our company. His or her future is an easy call. Onward and upward. The second type of leader is one who does not meet commitments and does not share our values. Not as pleasant a call, but equally easy. The third is one who misses commitments but shares the values. He or she usually gets a second chance, preferably in a different environment.
> Then there's the fourth type – the most difficult for many of us to deal with. That leader delivers on commitments, makes all the numbers, but doesn't share the values we must have. This is the individual who typically forces performance out of people rather than inspire it: the autocrat, the big

shot, the tyrant. Too often all of us have looked the other way and tolerated these "Type 4" managers because "they always deliver" – at least in the short term. (Bartlett, 2001)

To identify and weed out what he called the "Type 4 manager," Welch began rating GE's top managers in terms of how they implemented values, in addition to their quantitative achievements. He and his top mangers began to use a two-dimensional grid (Exhibit 6.4) to evaluate and coach their own direct reports.

Accepts and practices company values
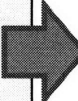
		YES	NO
Meets commitments	YES	Type 1 Reward and promote	Type 2 Consider as candidates for liquidation
	NO	Type 3 Give a second chance	Type 4 Remove immediately

Exhibit 6.4 Two-dimensional grid used at GE

Source: Rothschild 2007, modified by author

6.3.3 Nurturing Subordinates as Future Leaders

As Welch noted, it is not unusual for a manager who wants to advance his/her career to do so by seizing on a subordinate's achievement and claiming it as his/her own, or simply eliminating a person who might someday become a rival. Most firms try to avoid this by adopting a merit system. Employees may compete fiercely but they must do so fairly.

Nevertheless, subordinates are sometimes still treated poorly. To avoid such situations, GE says it must "nurture one's subordinate as a future leader." This has now become an explicit evaluation criterion for managers in the company.

GE has also adopted a 360° feedback system. All employees are graded by their manager, their colleagues, and their subordinates on a 1-to-5 scale in areas such as team-building, quality focus, and vision (Bartlett, 2001). If a leader does not make efforts to develop his/her subordinates, he/she may be downgraded by them, and their own career may stall. As part of the human resource planning process at GE, this system functions partly as a tool for identifying training needs, coaching opportunities, and career planning.

6.4   Training and Education Programs

6.4.1   History of Training

From its beginning to the present, GE has had a strong training system. The company has always believed in recruiting young, retaining the best, and building and promoting from within (Rothschild, 2007).

In 1901, GE established apprentice programs in Schenectady, New York; Lynn, Massachusetts; Bridgeport, Connecticut; and Fort Wayne, Indiana—all major manufacturing locations for GE. Training programs were developed for four occupations: machinists, draftsmen, blacksmiths, and molders. Programs consisted of specific work assignments and evening classes.

In the 1910s, CEO Charles A. Coffin realized that the company needed to hire talented, non-technical college graduates. But such recruits would need additional training to work effectively in GE. Coffin established a Business Training Course (BTC). At BTC,

college graduates took accounting and finance courses two nights a week. These training programs were key programs in the company until the 1950s (Rothschild, 2007).

6.4.2 Six Characteristics of GE Training Programs

Rothschild (2007) found there are common features in all GE training programs.

(1) *GE recruits from the best technical high schools, colleges, and universities.* Recruiting focuses on each candidate's ability, not just his/her work experience. This implies that GE builds and sustains close relationship with schools.

(2) *GE training programs focuses on the "GE way of doing things."* GE required trainees to learn subjects the "GE way." This means extensive training for recruits in such areas as accounting, engineering, and manufacturing, among many others.

(3) *All programs must include challenging work.* All programs have work assignments for participants, which forces trainees to practice what they learn during the training programs.

(4) *All programs includes tests and work appraisals.* At the end of BTC, trainees had to take three-hour to four-hour long exams that were almost as difficult as college exams. Moreover, the results were posted on the wall. This practice of testing and public display of the results is still practiced at GE.

(5) *Up or out.* One of the GE's characteristics throughout its history is acquiring the best people it could find and firing those who do not make the grade. They do the same for trainees. If a trainee cannot achieve the goals the company desires, he/she must leave the company. The combination of exam and work assignment appraisals separated trainees into three groups: (1) those who remain in the program, (2) those who are

dropped from the program but allowed to stay in the company, and (3) those who leave the company.

(6) GE provides certificates, not degrees. Though GE's training programs are intensive and demanding, students receive only a GE certificate, not a degree. This helps ensure that graduates of the program stay with the company. The market value of program graduates is low outside the company but high within. Today, the trainees are encouraged to pursue advanced degrees at local universities (Rothschild, 2007).

In the early 1950s, CEO Ralph Cordiner decided leaders should be trained to manage all kind of businesses within the firm regardless of the business's size or industry. He recognized that a variety of leaders were vital in order to manage a diversified and decentralized organization. Cordiner created a new management center located in Crotonville, a relatively isolated part of New York—the first major corporate business school in the world. The center was simple, consisting of buildings for living and learning. One of the interesting sites at Crotonville was "The Pit," an amphitheater in which aggressive discussions were held (Rothschild, 2007).

According to Rothschild, the reasons GE built its own facility instead of sending people to universities and business schools are as follows:

- GE planned for large numbers of people to go through the program.
- GE believed it was so different from other companies that it required writing and using its own case studies rather than using those drawn from other companies.
- GE wanted to control the topics, design, and execution of its courses.
- There were, at that time, no other facilities or programs that were comparable. (Rothschild, 2007).

Reginald Jones, Cordiner's successor, was a member of Crotonville's first class,

which began in January 1956. In an interview, he recalled his experience:

> We felt like a guinea pigs. The company was trying to feel its way into the field of management development and education. We had the opportunity to spend a lot of time with some very thoughtful people within General Electric and outside. Peter Drucker was one of our very early instructors in those days. One of the most interesting things about the course was that while we were given a great deal of information to absorb, we also had some time for reflection. This you never got to do when you were in the press of the business situation. (Slater, p.178)

I believe an important turning point occurred when Jack Welch rebuilt the facility in

the mid-1980s. Before becoming CEO, he had not been enthusiastic about the facility. In fact,

he attended a training program at Crotonville only once in his career. He thought

Crotonville's role was to serve as a "consolation prize" for those who missed a promotion.

However, after he lectured at Crotonville, he felt the facility could be useful to help him

spread his vision for the company to individual managers (Rothschild, 2007). Welch

described his objective for GE in 1989:

> Like many other large companies in the U.S., Europe, and Japan, GE has had an implicit psychological contract based on perceived lifetime employment. This produced a paternal, feudal, fuzzy kind of loyalty. That kind of loyalty tends to focus people inward. But in today's environment, people's emotional energy must be focused on outward on a competitive world... The new psychological contract, if there is such a thing, is that jobs at GE are the best in the world for people willing to compete. We have the best training and development resources and an environment committed to proving opportunities for personal and professional growth. (Bartlett, p.6)

In order to "reform" the facility, Welch hired some experienced academics. In

particular, Jim Baughman from the Harvard Business School and Noel Tichy from the

business school at the University of Michigan were hired to develop new training programs

at Crotonville. Under Welch's supervision, Crotonville's priority was to nurture leaders who

understand GE's vision. The facility changed from a management training center to a place

where managers tackled important problems in the company through intensive discussions, then made decisions on the spot to solve those problems. Outside lecturers were gradually replaced with top leaders in GE. Welch apparently enjoyed his discussions with GE's leaders in the Pit. Yet he wanted this aggressive give-and-take interaction to occur in the workplaces as well. This was the beginning of the now legendary "Work-Outs" (Bartlett, 2001). These are discussed in Section 6.4.4.

6.4.3   Training Programs

GE has various training and educating programs not only for top managers but also for entry-level employees. Every year, GE trains 10,000 employees (out of 310,000 employees) who come from all over the world (Yamakawa et al., 2008). Exhibit 6.5 illustrates GE's training programs for entry- and master's-level employees. Entry-level programs offer recent college graduates additional opportunities for development. Master's-level programs are offered to people who already have some professional experience. For example, the Experienced Commercial Leadership Program (ECLP) requires at least an MBA with 3-5 years of marketing or sales experience.

	Entry Level					Master's Level	
	CLP	EEDP	FMP	IMLP	OMLP	ECLP	HRLP
Commercial Finance	●		●	●		●	●
Consumer Finance			●	●		●	●
Corporate Components							
Asset Management			●	●			
Global Research		●					
Supply	●		●	●		●	●
Healthcare	●	●	●	●	●	●	●
Industrial	●	●	●	●	●	●	●
Infrastructure	●	●	●	●	●	●	●
NBC Universal	●		●	●	●	●	●

CLP : Commercial Leadership Program
EEDP : Edison Engineering Development Program
FMP : Financial Management Program
IMLP : Information Management Leadership Program
OMLP: Operation Management Leadership Program
ECLP : Experienced Commercial Leadership Program
HRLP : Human Resource Leadership Program

Exhibit 6.5 Training Programs

Source: GE website (d), modified by author

GE's formal training system adopts techniques that stress practical methods as well as classroom training. For example, ECLP is a two-year program at Crotonville consisting of four six-month, rotating assignments within the commercial function of the GE business, plus eight weeks of intensive classroom training and in-residence global symposiums. If satisfactory performance in the program follows, the manager will be assigned to a challenging position and has the opportunity to be promoted faster to an upper level in the

firm. If the required level is not met, the manager is asked to leave the company (Rothschild, 2007).

One characteristic of the training program for general managers is a reliance on what is called "action learning." This method uses internal, company-focused issues as training materials, which GE believes enhances learning effectiveness. Participants learn frameworks and how to apply them to company problems. They also learn about other GE businesses through specific assignments as part of the training program. For example, a general manager from the Plastic Department might be given an assignment to solve a problem in the Energy Department during the training program.

In 2006, GE launched a team-based training course called Leadership Innovation and Growth (LIG). This is a week-long course to improve business culture and capability (Yamakawa et al., 2008). At the end of the week, the team leader develops a list of "quick hit actions" to achieve the team's growth vision. The LIG program was the first GE training activity developed for groups rather than individuals. Immelt wrote about the team-based program in his 2006 letter to investors:

> We have a long-term commitment to training. This is how we transfer knowledge within GE. For the last two years we have trained our team on the growth leadership traits so that they could become high-performance builders. However, we recognized that building a culture to invest and deliver is a "team spot" As a result, we launched a team-based training course called Leadership Innovation and Growth (LIG).
> We believe in the impact of LIG and will make one-third of our executive education "team-based" in the future. We love high-performance people. But we have learned that building businesses over the long term takes a team.
> It also helps retention. Everyone likes hiring GE people. While our people are well paid, some private companies can pay them more. Sure it is tempting, but we rarely lose leaders who have a passion for building. These talented people recruit loyal teams and are driven to build dynamic businesses for the future (GE Annual Report, 2006).

Another recent shift in GE training stems from globalization. GE now has 180,000 employees working outside of the United States. Recently, GE transferred part of its executive training courses overseas. It implemented an LIG program in London in 2007 and plans to start other LIG programs in Shanghai, New Delhi, Dubai, and Tokyo in 2008 (Yamakawa et al., 2008).

6.4.4 Work-Out

As mentioned earlier, Welch wanted to replicate throughout GE the honest, energetic interactions he witnessed at the Crotonville Pit. In his autobiography, he wrote:

> One afternoon in September 1988, I left Crotonville frustrated as hell. I had just about had it. That day had produced a particularly good session. The people in class poured out their frustrations about trying to change their business. I knew we had to get the candor and passion out of the classroom and back into the workplace. We had to re-create the Crotonville Pit all over the company...
>
> This was the beginning of the GE game-changer called Work-Out... We came up with the idea of bringing in trained facilitators from the outside, mainly university professors who had no ax to grind....
>
> Work-Out was patterned after the traditional New England town meeting. Groups of 40 to 100 employees were invited to share their views on the business and the bureaucracy that got in way, particularly approvals, reports, meetings, and measurements (p, 182).

A typical Work-Out lasted two to three days. "The boss was expected to give a yes-or-no decision on at least 75 percent of the ideas. If a decision couldn't be made on the spot, there was an agreed-upon date for the decision... It became a bureaucracy buster" (p. 183).

6.5   Comparing Kirin to GE

Kirin training programs for selected young managers were established in 2002 to nurture young leaders. Kirin's top management hopes to develop those who will lead and

innove in the future. Exhibit 6.6 compares Kirin and GE's leadership development activities.

	KIRIN	GE
Fundamental Working Environment		
Lifetime Employment System	√+	-
Seniority System	√	-
Early Promotion	√-	√+
Job Experiences in various categories	√-	√+
Displacement	-	√
Diversification (globalization)	√-	√+
Diversification (incl. women leaders)	√-	√
Features of Leadership Development		
Strong Commitment of Top Management	√+	√+
Openness to all ages	√-	√+
Evaluation System		
Top management's commitment for talented leaders	-	√+
Company's Value as one of evaluation criterion	√	√
360 degree feedback system	√- Diagnose system	√+
Nurturing subordinate as a leader	√	√
Training and education programs		
Programs for all level in hierarchy	√	√
Selected programs for talented young managers	√	√+
Selected programs for talented young employees	√-	√+
Team Based training	-	√
Up or Out Philosophy	-	√+
Open recruitment for selected programs	√	-
Company owned training facility	-	√+
Forums	√ V10 Project	√+ Work Out

Symbols: "-"stands for N/A, "√-"stands for weak, "√"stands for medium, "√+" stands for strong

Exhibit 6.6 Comparison between Kirin and GE's features of leadership development

Source: developed by author

Although there are big differences between two companies in terms of scale, both companies need young leaders who can help their company improve in today's rapidly changing emvironment. In both companies, there is a strong commitment among top management for leadership development activities and for improving training programs for young people.

There are also differences between the two companies. Two are most important. First is a difference in "tension." GE's "Up or Out" philosophy likely causes considerable anxiety for employees (and perhaps also increases their motivation to succeed). The long-term employment system at Kirin does not produce such tension. However, recent personnel system changes at Kirin, such as the new graded evaluation system and selective training programs for young people, may produce similar tension (although for far fewer people than at GE).

Second, and equally important, is the difference in career experiences of leaders in the two companies. Many leaders at GE assume their positions at a relatively early age. They also move swiftly into and out of more jobs in the company. Leaders in Kirin have their management assignments at approximately age 40 and are not transferred across jobs as frequently as at GE.

CHAPTER 7

Summary and Conclusions

How can leadership be nurtured among young people in a company? This has been the theme of this thesis. The definition of leadership has changed over the years, and it is clear that leadership differs from company to company depending on the business circumstances that surround a given firm. For instance, the leadership in start-up companies differs from the leadership required in traditional organizations.

In Chapter 2, I analyzed the environment of the Japanese alcoholic beverage industry. To remain successful in this environment, Kirin recently announced its long-term operating framework called KV2015, with which Kirin hopes to achieve a quantum leap in growth. To achieve this target, top management of Kirin have altered the company's personnel system, including revising its evaluation systems, reinforcing training and education programs, and trying to change the organization culture. As mentioned in Chapter 4, part of this change process allows for the early promotion of a small number of talented young managers.

In Chapter 5, I examined Kirin's leadership strengths and weaknesses, and compared the MIT leadership framework to Kirin's current leadership capabilities. In Chapter 6, I explored the leader development system at General Electric. Reflecting on these approaches, I believe Kirin needs to better develop its young managers. In this final chapter, I will suggest three ideas that could help Kirin develop and improve leadership capabilities of its young managers: (1) providing leadership experiences an earlier career stage; (2) providing

opportunities for young employees to learn and improve their leadership capabilities; and (3) generating a sense of urgency for leadership development.

(1) Providing leadership experiences at an earlier career stage

I believe Kirin managers need leadership experiences earlier in their careers. Since Kirin managers currently do not direct subordinates until they are about 40 years old, they have little time left in their careers to develop leadership capabilities. Although Kirin's personnel system has changed recently and, as a result, early promotions are possible, opportunities for young employees to exercise leadership at an early stage are still limited. While it takes considerable time to change the current system, there are a few possibilities for allowing young employees to acquire leadership experience in Kirin subsidiaries.

In the past, job transfers away from Kirin Brewery to a subsidiary often disappointed employees. Many believed that they are stepping away from the "star" alcohol business. To them, it was the equivalent to a demotion. When I was transferred to a newly established subsidiary, Kirin Communication Stage (today's Kirin Merchandising: KMD), some of my colleagues told me that "I got the joker." But my experiences in this subsidiary turned out to provide me with many opportunities to exercise leadership.

KMD was established in 2002 as a special subsidiary focused on Kirin sales at chain retail stores such as supermarkets, convenience stores, and discount stores (later it expanded into sales at restaurants). It had approximately 200 employees, all transferred from the Kirin Brewery. In addition there were 800 contract employees and part-timers. Since this company focused on a special market segment, its work content was comparatively easy to that of Kirin. Many young employees who had sales experience were transferred to KMD as

managers or assistant managers. Over 80 employees were assigned management jobs for the first time. For example, I was 33 years old and a member of the sales section prior to my own transfer. But upon transferring, I became a manager with 26 subordinates. Seven of them had been transferred from Kirin Brewery, including two assistant managers who were 29 and 30 years old. The rest of my group were contract employees and part-timers. It was a challenge for me to manage subordinates (including the contract employees and part-timers who had turnover rate of over 20%) but the learning opportunity was greatly beneficial.

Inexperienced managers and assistant managers at KMD struggled to lead their new teams and trial-and-error learning predominated. They learned to manage people by asking for help from their bosses, mentors, and peers in KMD. I believe these experiences developed the young managers' leadership capabilities and represented what Kanai (2002) called "quantum leap experiences."

Such efforts by young managers and assistant managers built up a subsidiary that made a major contribution to the parent company. Top management of Kirin now recognizes the value of these experiences, as noted in the 2005 Annual Report:

> The KMD team of experts is engaged in merchandising activities both volume at and on-premise outlets, as well as draft beer quality control. The success of Nodogoshi[10] in 2005 owes much to the eye-catching storefront displays created by KMD. Having integrated the volume retail merchandising operations of Kirin Beverage in September 2005, KMD is now pursuing greater marketing collaboration across the Group. (Kirin Annual Report, 2005)

Such successes altered the perception and reputation of KMD at Kirin. Now, some young employees believe that taking a management role in a subsidiary is an attractive career development move. For them, a transfer to a Kirin subsidiary is no longer a dead end.

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[10] Kirin's first new genre product.

I believe this is the time to use subsidiaries as a leadership development platform. Young employees (from about 30 years old) can take a management position when they are transferred to a subsidiary. Leadership experience at this early stage will benefit both the individual and, in the long run, the company.

(2) Providing opportunities for young employees to learn and improve their leadership capabilities

As mentioned in Chapter 4, the Kirin Personnel Department has rapidly expanded its personnel training and education programs, providing global programs such as English language skills and global management skills. They have also established Selected Programs both for young managers and general employees.

I do not believe all employees at Kirin realize the expansion of the training and education programs. Although the Personnel Department released official internal documents about the expanded training and education programs, most employees do not see these programs as opportunities. For example, only 51 employees out of approximately 600 eligible employees (8.5%) applied to the Kirin Business College in 2007 (24 employees were selected). Similarly, 60 out of approximately 650 eligible managers and deputy managers (9.2%) applied to the Kirin Management School (14 were selected), and 40 out of 270 eligible deputy directors (14.8%) applied to the Kirin Executive School (16 were selected). (see Exhibit 7.1). These programs are intense, but they offer major opportunities for managers and employees to enhance their leadership capabilities. All eligible managers and employees can apply for the program through the open-recruitment system.
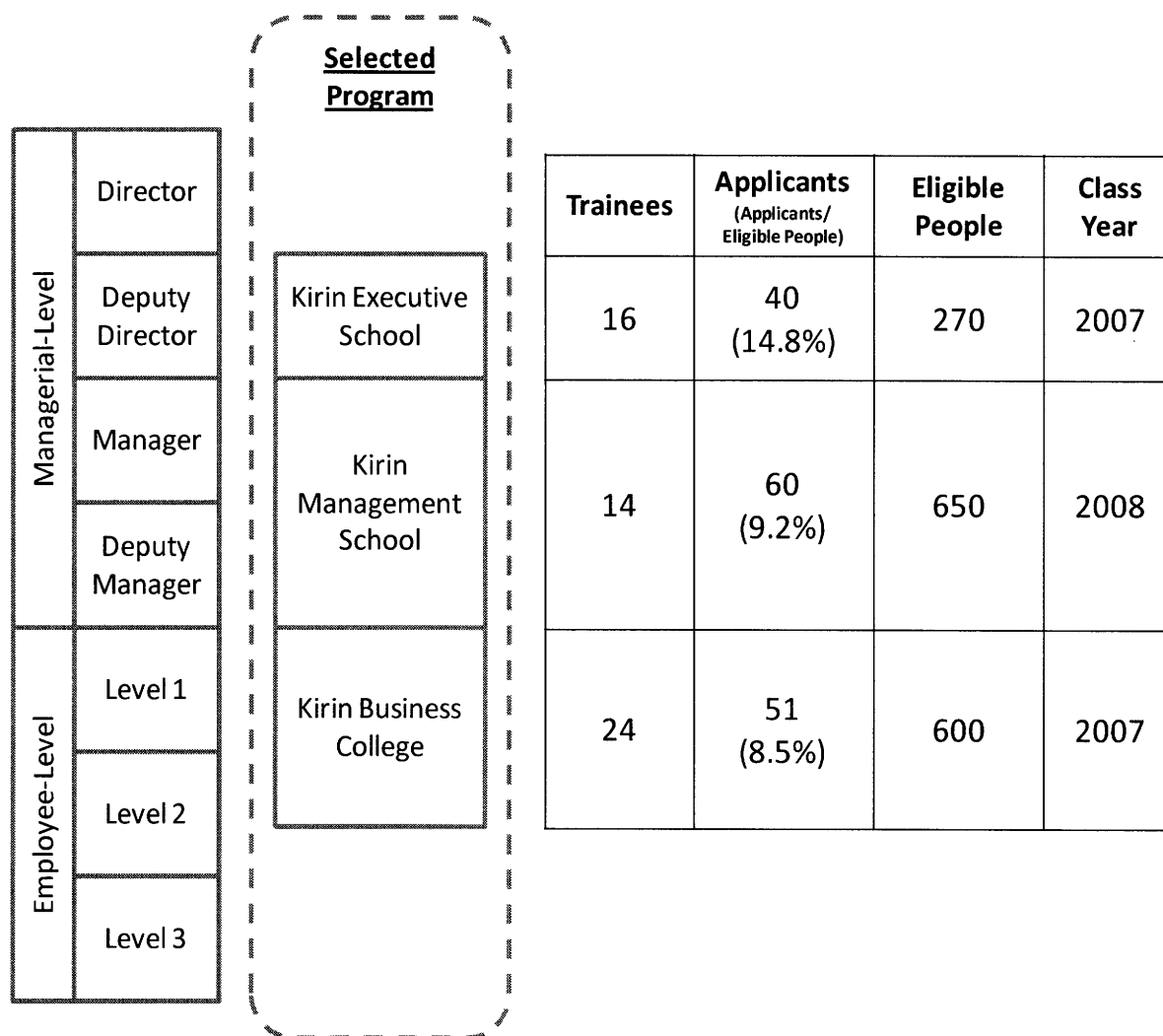
	Selected Program	Trainees	Applicants (Applicants/ Eligible People)	Eligible People	Class Year
Managerial-Level — Director					
Deputy Director	Kirin Executive School	16	40 (14.8%)	270	2007
Manager	Kirin Management School	14	60 (9.2%)	650	2008
Deputy Manager					
Employee-Level — Level 1	Kirin Business College	24	51 (8.5%)	600	2007
Level 2					
Level 3					

Exhibit 7.1 Kirin's Selected Training Program and Applicants

Source: Kirin Holding Company, modified by author

One reason for the low application rates for the Selected Programs is lack of communication, that is, there are few announcements about the programs. Another reason may be perceptions of training and education programs in the company. Some managers and employees believe that training and education programs reduce work time. Some employees say "I don't want to attend a training program for three days and have to go to Tokyo because I'm busy doing my job here!" Employees must come to understand that attending training

programs is useful and an investment in themselves. Therefore the Kirin Personnel Department must encourage more employees to apply for its programs.

(3) Generating a sense of urgency for leadership development

Another reason for the low number of applications to the Selected Programs might be the lack of a sense of urgency due to the long-term employment system at Kirin. As mentioned in Chapter 6, GE has an "Up or Out" philosophy in both its training programs and personnel evaluating system. Such a philosophy might generate considerable anxiety among Kirin managers and employees, but perhaps it would also motivate them to succeed in the company. Although Kirin introduced a new grading and evaluation system and can now demote managers, that is insufficient to motivate all the young managers and employees to change themselves in order to achieve Kirin's goal or vision.

Since demoting is uncommon at Kirin, the General Manager of the Personnel Department implied recently that he will change the system. He even spoke of the possibility of early promotions, to be achieved through the use of a new evaluation system. I believe all managers need to know the negative side of the new system as well. This will help generate a sense of urgency among young managers and also increase their motivation to change.

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