

Striving to Create Social Value

YKK Group Business Activities as Seen in the "Cycle of Goodness"

Professor Philip Kotler—known as the father of modern marketing—is an intellectual giant who has constructed a foundation of marketing theory, and still remains active on the front-line. In this section, we introduce part of a discussion held in October 2015 between Professor Kotler and Chairman & CEO Tadahiro Yoshida. During the talk, Yoshida, who attended Professor Kotler's lectures while studying in the United States, explained the YKK philosophy of the "Cycle of Goodness," to which the professor responded with various suggestions.



Tadahiro Yoshida

Chairman & CEO, YKK Corporation and YKK AP Inc.

Born in Toyama Prefecture in 1947, he graduated from Keio University (Faculty of Law). In 1972, he completed his MBA at the Kellogg School of Management at Northwestern University and joined YKK Corporation (then known as Yoshida Kogyo K.K.). He became president of YKK AP Inc. in 1990 and president of YKK Corporation in 1993. He became Chairman & CEO of YKK Corporation and YKK AP Inc. in 2011, a role he still plays today.

Philip Kotler

Professor, Kellogg School of Management, Northwestern University

Professor Kotler is a leading expert who has built the foundation for marketing theories and is an internationally-respected authority who is also known as the "father of modern marketing." He earned his master's degree at the University of Chicago and PhD at Massachusetts Institute of Technology, both in economics. He is also active in applying marketing theories to "solve social, economic, and political challenges."

The Ultimate Challenge of Marketing Is Creating a Better Society

Yoshida: Thank you very much for your time today. It has already been more than 40 years since I enrolled in the Kellogg School of Management at Northwestern University in the United States, where you time and time again taught us through your marketing theories about the significance of meeting different needs of different customers. I still remember it vividly.

Kotler: Indeed, I also remember it well. It brings back memories.

Yoshida: You always mentioned the importance of customer satisfaction and that companies should practice business from the customers' perspective based on the idea of "one-to-

one marketing." What impressed me the most was, that even in the 1970s, "creating a better society through marketing" was one of your research themes.

Kotler: People tend to think marketing applies only to the commercial world, but essentially, its principles can be applied to any field. In my attempts to prove this, I have constantly expanded my areas of research, studying its effectiveness across countless fields. Be it vitalization of a community, NPO activities, or administration of an art or other museum, marketing can be very effective. And in the process of my research, I hit upon the notion of "creating a better society through marketing." I suppose you could also call it "searching for a new kind of capitalism." My research continues to this day.

Similarity between Professor Kotler's Theories and the "Cycle of Goodness"

Yoshida: Back in those days, I could easily relate to your marketing lectures.

Kotler: In what way?

Yoshida: Actually, I found an idea that was similar to yours in the YKK Group's corporate philosophy, the "Cycle of Goodness."

Kotler: Goodness... That is very interesting. Is this about YKK's corporate philosophy or about its system of business?

Yoshida: I think it is both. It serves as a corporate philosophy, but it doubles as a system that acts as the cornerstone of our business.

Kotler: Very interesting, indeed. Please explain in more detail.

Yoshida: The "Cycle of Goodness" was coined by Tadao Yoshida, the founder of YKK, to express the company's philosophy in a single phrase. He was inspired as a youngster after reading a biography of the American steel magnate Andrew Carnegie. Discovering the idea that "no one prospers without rendering benefits to others" in the book and adapting it as his motto, he kept accumulating ideas that later led to the "Cycle of Goodness."

Kotler: So he had such an idea even before he started his business.

Yoshida: Yes, that is correct. In the process of developing his business, he arrived at the concept of the "Cycle of Goodness" by believing that "if we plant seeds of goodness and devote ourselves to doing good, the goodness will invariably be rewarded and the cycle of goodness will repeat itself endlessly." He was very particular about developing a business based on the "Cycle of Goodness" in the field of *monozukuri**.

Growing and Prospering Together by Sharing

Kotler: Please elaborate on the idea of the "Cycle of Goodness."

Yoshida: Yes. Concerning what a company should be, founder Tadao Yoshida held a strong belief that "businesses belong to society." "An enterprise is an important member of society, and as such, it must coexist with other elements of society. Its value will be measured by the benefits it shares with society." We have carefully considered this need for mutual prosperity as we planned our business endeavors. We determined that contributions to society could best be achieved by the continual creation of value through innovative ideas and inventions. The resulting business expansion would bring prosperity to consumers and business partners, thus benefiting society.

Kotler: It means that the sharing of

product quality and cost effectiveness, as well as profit, can contribute to the growth of society. Please explain it from the perspective of a business system.

Yoshida: Yes. Beforehand, I'd like to point out that Professor Keinosuke Ono, who studies Business Administration, conducted an interesting analysis that is worth sharing. Please take a look at the Chart of YKK Philosophy "CYCLE OF GOODNESS" (at the bottom of this page). According to Professor Ono, the "Cycle of Goodness" is centered on "saving," "employees as shareholders," and "three-party sharing." First about saving: at YKK (in Japan), part of an employee's salary and bonus are saved internally. Through the employee stock ownership plan, that part of the salary is accumulated in the form of stock ownership. That is, this business system starts with its employees.

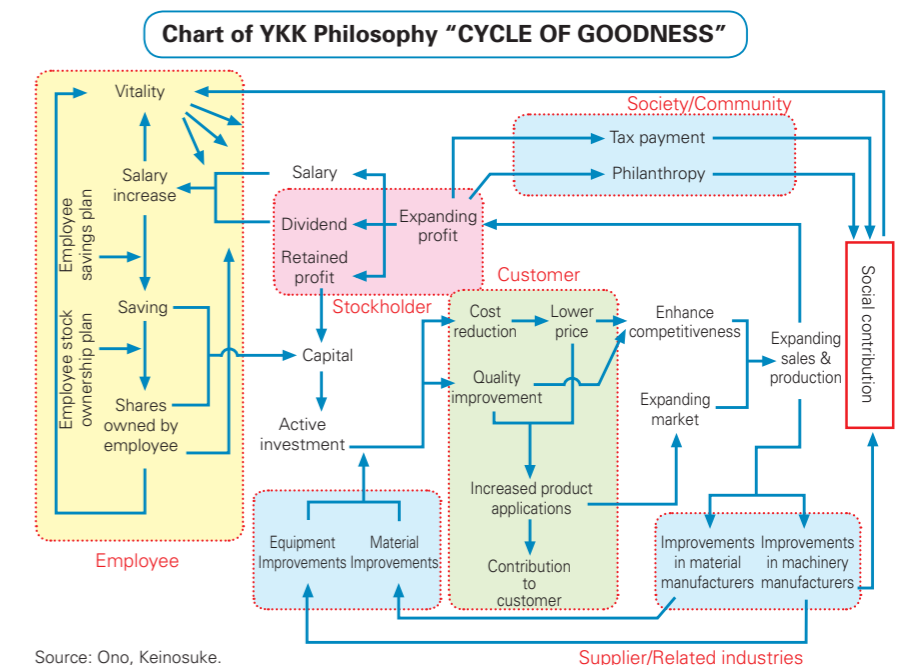
Kotler: Normally, a business system starts from the top, but your business starts with the employees. It is interesting that by acquiring shares of their company, employees become the shareholders—part-owners if you like.

Yoshida: That is correct. Professor Ono also mentioned that it is one of the unique aspects of the "Cycle of

Goodness." It came from Tadao Yoshida's concept that dividends on stock "should be provided only to those who contribute their brain and sweat to their work." At the same time, he also believed that "stock is a certificate for participating in business," which should foremost be owned by the employees. We believe that employees' earnings through the dividends, as well as their salary, are important. Another very important notion is that even if an employee is a member of a wealthy family, he or she can buy stocks only within the scope of his/her salary and bonus, so that every employee is equal.

Kotler: I see. That is very fair. Dividends seem an effective means to turn a company's performance into employee motivation. How is the accumulated capital used?

Yoshida: We actually use this money for active capital investment. Even if



Source: Ono, Keinosuke. *Misshon Keiei no Susume: Toward Mission-driven Management*

* The art, science and craft of making things.

an excellent idea is developed in the company, if we do not have enough money to allocate to it, there would be no viable business. Investment that serves as a springboard to make great strides is very important. Part of that fund is covered by the employee-owned stocks.

Kotler: So the employees are investing in growing their own company.

Yoshida: Yes. With that investment, we can improve product quality and cut costs to lower prices. This could lead to new applications for our products. Furthermore, it spurs the growth of related equipment and materials manufacturers. Lower costs directly result in higher profit and bring about increases in taxes paid and other social contributions.

Kotler: Are you open about where the money goes?

Yoshida: Of course we are open, and we maintain high levels of transparency. We conduct briefing sessions on our business plans and results for our employees, who are also our shareholders. Our management team members are busy traveling all over Japan giving briefings during the briefing season.

Kotler: This is definitely a model that makes employees happy, suppliers happy and the community happy. Since happy employees are more productive, your products get better and your market share gets better. You could also call it the cycle of "prosperity," or of "collective prosperity" —where everyone gains. It fits what I said; capitalism must do things to save itself by enjoying and sharing all of these good skills. It sounds to me that YKK is a company with purpose and passion.

Yoshida: I see. Thank you very much.

Kotler: Taking it further, how would you describe "three-party sharing"?

Yoshida: It is an idea that symbolizes the "Cycle of Goodness." It means to divide the added value stemming from

corporate activities among three parties: customers, business partners, and our company, which consists of management and employees. Customers are provided with better quality products at stable prices, while business partners receive business transactions that bring growth to them. The intention is to flourish together with stakeholders by sharing profit. Tadao Yoshida firmly believed that, by repeating this business cycle endlessly, a company can grow and prosper in an upward spiral.

Kotler: I see. Corporate activities require management, labor, suppliers and the like, but the old idea was you can make the most money by paying the least to workers, suppliers, and distributors, leaving you a bigger pot of money. The problem with that is the workers do not work so hard as they are not motivated, and they are not the best employees because you did not offer enough. And if you do not trust suppliers, changing them every year and not making enough payment, why should they build any relationship with you? In that respect, I was really impressed by the idea of the "Cycle of Goodness." They will work harder because it is like being on a team. Watch a rugby team for example; I think it can induce a sport-like, "fighting spirit" feeling.

Yoshida: That is correct. There seems a sense of unity, like you might find in a sports team.

Kotler: Further, YKK's management style can be described as "win-win-win." Many stakeholders including management, employees, suppliers and communities are tied in win-win relationships. It is very interesting. The business model of YKK is exciting to me too, as I continue searching for a new path for capitalism. Its approach is very unique and it seems the "Cycle of Goodness" incorporates so many clues for companies to deal with and solve the social challenges they face.

Create New Value by Facing Social Challenges

Kotler: Please tell us about any value that you think should be created at the present moment, if there is any.

Yoshida: What are the roles we should play for the betterment of our society and to bring happiness to this world as a manufacturer of components that relate to people's day-to-day lives, as world population is set to increase to over 10 billion? Going back again to the "Cycle of Goodness," I think we should aim at becoming a business that can make people happy. For example, we provide people with simple, but good products, products of value to them. We not only manufacture expensive products, but also create items that make life for regular folks much more comfortable, healthier, and richer in spirit. I am convinced that we are expected to execute *monozukuri* that can only be achieved by YKK, who looks after the entire world and society with a broad vision and flexible mindset.

Kotler: I understand very well. We have known each other for years, but we talked about YKK's business philosophy to this extent for the first time. I should have asked you about this earlier, and so, before closing, let me give you one piece of advice. You should spread what you told me today to others outside your company. You may be able to shake them up.

Yoshida: Thank you for your insightful advice. Let me keep it in mind. Thank you very much for your time today.



To Our Stakeholders

Creating New Value and Contributing to a Sustainable Society

—"Creating new value" and "contributing to the sustainable development of society" as a manufacturing company.

In our corporate operations, we endeavor to link these two concepts in an ideal manner based on the YKK Philosophy of the "Cycle of Goodness." Our founder, Tadao Yoshida, believed that "an enterprise is an important member of society," and knew that creating new value and returning this to society was necessary for mutual development and prosperity. Since 1959, we have been expanding our business around the world based upon these beliefs, taking the approach of entrusting operations to local offices, and proactively reinvesting profits locally, to give back to the community.

With operations in 71 countries/regions around the world, we aim to ensure thorough environmental compliance in each country and region through the development of communication networks and responsibility systems.

Furthermore, recently there has been a growing demand in the apparel industry for attention towards the environment and safe workplaces. Consequently, we actively endeavor to provide products made using safe materials and sound processes. We are also working toward certification throughout our supply chains in the areas of environment, health and safety, and resource conservation. Moreover, we are striving to reduce our burden on the environment through the use of natural energy sources that leverage local geographical advantages and through the construction of plants and headquarters that use advanced energy- and resource-efficient systems, in order to significantly reduce our energy usage.

In the future, with the growing need for environmental management on a global scale and resolution of societal challenges, the YKK Group will continue to create new value by increasing our product appeal and proposal capabilities, and the technological capability which underpins them, aiming for the creation of a sustainable society.



June 2016
Masayuki Sarumaru
President, YKK Corporation
YKK Corporation Environmental Policy Board Committee Chairman

Creating New Value through Products and *Monozukuri*

YKK AP Inc. creates business value suited to each age through a range of architectural products, such as windows and doors, which create comfortable living spaces, and building facades, which create beautiful cityscapes. We thereby aim to be a company that offers advanced comfort in both living and urban spaces.

Now as we are faced with electricity supply issues, greater importance is being placed upon energy-efficiency in our living environments. Windows and doors are points of significant heat loss, and therefore play an important role in energy-efficiency. One of our essential characteristics is our commitment to a user-centric approach to the art of manufacturing. Consequently, we are actively engaged in the development of high-performance, energy-efficient products that contribute to reduced energy use in homes and offices by blocking heat, providing thermal insulation, and regulating ventilation.

In our production processes, we are improving efficiency on production lines and making efforts toward earthquake-resistance and energy-efficiency within our plants, along with improving the efficiency of our distribution operations and launching "zero-emissions" initiatives. These efforts contribute to the goal of a low-carbon emission, recycling-oriented society, and we aim for manufacturing that is in harmony with the natural environment. We are striving toward the goal of comfortable living environments that are also friendly to our global environment through realization of improved energy efficiency in our products and reduction of CO₂ emissions across their life cycles, the value of which we are promoting widely throughout society.

As a company committed to our products, quality, and manufacturing, we will continue to create new value and contribute to the goal of a more comfortable, sustainable society through the provision of products which lead to the improvement of our living environments.



June 2016
Hidemitsu Hori
President, YKK AP Inc.
YKK AP Inc. Environmental Policy Board Committee Chairman