Japan's growth Quotient

Japan, in second place among the world's economic powerhouses, is quietly enjoying its longest period of sustained growth in modern history. Its global brands have never been stronger. And under the leadership of Prime Minister Yasuo Fukuda there is a reformed spirit in business and politics. The trend is expected to continue thanks to a focus on innovation, and government efforts to invigorate the financial markets and attract foreign investment. Read on to learn about the transformation underway from changes at the Tokyo Stock Exchange to public and private sector initiatives to address climate change.

INSIDE:

Brave New World Market

As Japan's population ages and its economy matures, the government aims to build Tokyo into a regional and global financial hub to help sustain growth.

Back in the go-go days of the 1980s, it went without saying that the world had three centers of global finance: New York, London, and Tokyo. Accounting for one-third of total global market capitalization at its peak, Tokyo looked set to dominate the emerging "Asian Century." How times change! From a high of 38,915 on the last trading day of 1989, the Nikkei index dwindled to a low of 7,607 on Dec. 31, 2003—a vertiginous 80% drop—as the Japanese economy floundered through its notorious "lost decade." Even now the Nikkei remains mired around 14,000, less than half its all-time high. And despite being the world's No. 2 in terms of market capitalization, Tokyo is perceived as lagging behind not just New York and London, but even its smaller regional rivals. Hong Kong and Singapore. In fact, U.K. market research firm Z/Yen ranked Tokyo only ninth, below Chicago and above Sydney, in its March 2008 Global Financial Centres Index (GFCI) of competitiveness.

But should the Japanese be worried? As a culture they have traditionally held monozukuri, or making things, in higher esteem than the abstract products of high finance. And they're good at it too, with brands like Toyota and Sony household names the world over. Does a country that can do one thing so well really need to turn its attention to something for which it feels little affinity?

The answer from Japanese government circles is a resounding yes. The Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets, produced by the Financial Services Agency (FSA) in December 2007, argues that a more dynamic financial sector will deliver a range of benefits for Japan: better investment opportunities for the country's aging population; the capital to help domestic and overseas companies grow; plus high-value-added jobs of the kind that will sustain economic growth.

The plan has four distinct goals: invigorate Japanese financial markets by allowing exchanges to offer a greater diversity of investment products, such as Exchange Traded Funds (ETFs); galvanize the financial services industry by revamping the firewalls currently separating the banking, securities, and insurance businesses; introduce principles-based—and thus more transparent and predictable—regulation; and finally, nurture skilled personnel in fields like finance, law, and accounting.

Investors on the Sidelines

With over 96% of all trading by value, the Tokyo Stock Exchange (TSE) is the largest of Japan's six bourses and thus the institution likely to reap the greatest benefit from the plan's proposed reforms. Shunzo Kayanuma, TSE director of corporate communications, is certainly bullish. The Japanese household sector, he points out, is sitting on the equivalent of over $16 trillion in financial assets, 16 times the estimated resources of the Abu Dhabi Investment Authority, the world's biggest sovereign wealth fund. The only trouble, he concedes, is that ordinary Japanese are not very interested in putting that money into the domestic stock market right now. TSE data from September 2007 shows that while individual Americans had around 45% of their wealth in stocks and investment trusts and just 13% in cash, the Japanese kept over 50% of their wealth in cash and a mere 16% in the stock market.

But all this could change. In Japan's recent non-inflationary environment, money parked in the bank retained its value even when it didn't earn much interest. But were inflation to rear its ugly head—something that's quite likely with soaring food, energy, and raw material prices—domestic stocks might well come back into favor with the Japanese public.

> Japanese households are sitting 011 over $16 trillion in financial assets.

With that in mine,'the TSE is taking concrete steps to make itself more attractive to individual investors. The pace of new product launches is accelerating: The total of 13 Tokyo-listed ETFs at

The Tokyo Stock Exchange is introducing welcomed changes to attract more foreign listings.

the start of this year rose to 34 by April. Variety is also on the increase: in addition to plain vanilla Japanese index tracker products, overseas stock market trackers like PANDA, an ETF that tracks Chinese A shares in Shanghai and Shenzhen, are being launched; commodity ETFs are in the wings, waiting until current legal restrictions are set aside. Kayanuma and his colleagues hope that offerings like these will help Tokyo achieve its goal of becoming a universal exchange driven by two engines—a cash market worth $9.5 trillion (1,000 trillion yen), and the largest derivatives market in Asia.

A Capital Gateway to Asia

One statistic that is regularly trotted out as evidence of Tokyo's decline is the number of overseas exchange listings. From 127 in its 1991 bubble heyday, the TSE now hosts a mere 25 overseas companies, "a fraction of the 446 foreign listings in New York, the 315 in London, and the 150 in Singapore," as an article in the *Financial Times* pointed out. Kayanuma, however, is undismayed. A significant number of the companies that ended up delisting had been drawn to Japan when the bubble economy was at fever pitch. For them, Tokyo was never more than a satellite listing, and an illiquid one, at that. The TSE is now interested in attracting overseas companies that want Tokyo to be their primary listing. In 2007 two mainland Chinese companies—Asia Media, a leader in electronic program guide technology, and China Boqi, an engineering firm specializing in environmental technology—listed on the TSE. Kayanuma hopes they represent the wave of the future.

To attract further Asian investment, the TSE is also introducing JDRs (Japan Depositary Receipts) that will enable companies from countries that restrict direct overseas listings, like India and Taiwan, to tap into Japan's capital markets. It's a strategy that appears to be working. An April 2 report in Japan's *Nikkei* business newspaper revealed that Indian car maker Tata Motors Ltd., creator of the Nano, the world's cheapest car, and new owner of the prestige Jaguar and Land Rover marques, is planning to raise over $950 million (100 billion yen) though a JDR placement as early as summer 2008.

The obligation to submit all documentation in Japanese and to adopt Japanese accounting standards inevitably entails considerable trouble and expense for overseas companies wanting a Tokyo listing. That's why the TSE has teamed up with the London Stock Exchange to develop what it's provisionally calling "a market for ***(Continued on page S6)***

One Step Ahead

Global leader in many of the businesses in which it operates, Canon is always thinking about its next move in a fast-changing world.

The credit crunch and soaring commodity prices have created challenging times, but no one seems to have pointed this out to Canon. The camera and office-equipment maker reported net income of $4.28 billion (488 billion yen) on sales of $39.3 billion (4.48 trillion yen) in its fiscal year ending Dec. 31, 2007, when the exchange rate was 114 yen to $1.00. This marked the eighth consecutive year of rising sales and profits—a recordbreaking run the company aims to extend for another year. What's the secret of Canon's success? "We've consistently developed innovative technologies that have enabled us to launch competitive new products," explains chairman and CEO Fujio Mitarai. "And that's what we intend to keep doing."

In Canon's case, of course, business as usual doesn't mean doing the same things in the same way; it means relentlessly improving processes to secure better performance at lower cost. The introduction of 3D-CAD simulation technology, for example, has sped up design and development, achieving higher levels of precision while delivering cost savings. Meanwhile, an increase in automation through wider use of robots has produced similar results at the manufacturing stage. It's these types of ongoing reforms that have propelled Canon to the global No. 1 slot for digital single lens reflex and compact digital cameras, copying machines, and laser printers.

Despite its strong market-leadership position. Canon wants to continue to diversify into new fields—like digital commercial printing, robotics, and medical equipment—that offer great long-term growth potential. "We believe that medical equipment will become a major future business for Canon," he says, "while robotics will be helpful in both the manufacturing and medical fields."

To attain this goal, Canon boosted its R&D budget by almost a fifth last year, to the equivalent of 8.2% of net sales. It is also conducting joint research projects on medical imaging technology with prestigious academics in both the U.S. and Japan. These efforts are paying off: Canon was awarded almost 2,000 patents in the United States in 2007, placing third among all corporations and marking the 16th year that the company has placed among the top three. "When it comes to moving into new fields, mastery of the right technology is key," declares Mitarai.

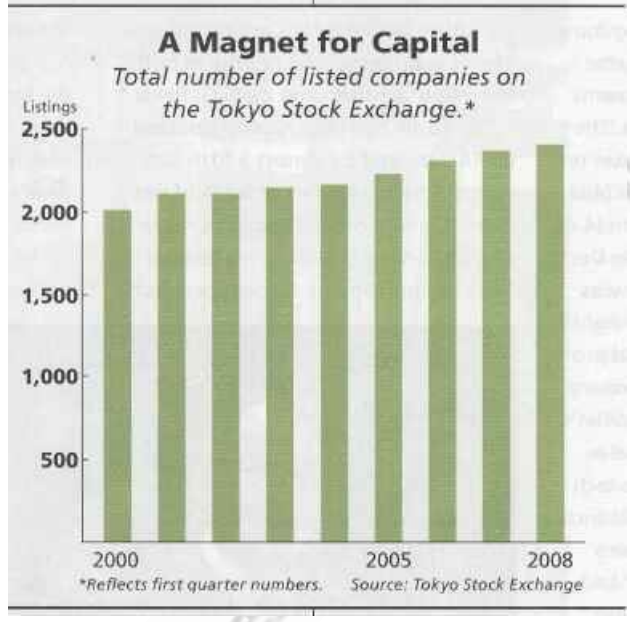

Canon Chairman and CEO Fujio Mitarai

While moving into new technologies represents one growth opportunity for Canon, moving into new geographies represents another. To take advantage of the burgeoning buying power of consumers in emerging markets, Mitarai is planning to redesign Canon's existing worldwide sales network to better serve the needs of Brazil, China, India, and Russia.

Mitarai also plans to reduce the impact of another much less positive economic trend—surging raw material and energy prices—by locating more of Canon's manufacturing sites within the major markets they serve, thus cutting both transport costs and carbon emissions. A planned $600 million toner-cartridge manufacturing facility in Newport News, Va., is a case in point. "We've been recycling cartridges there since 1990," Mitarai explains, "but now, by manufacturing cartridges at the same place, we'll be able to make more effective use of the recycled plastic and gain big energy savings compared to shipping toner cartridges from Asia." Canon wants to make the Virginia venture a model of its green initiatives.

Turning obstacles into opportunities like this is very much how Mitarai operates, so it's no surprise that his final take on environmental problems is upbeat: "The environment is the great challenge of our age. Some people think environmental problems will halt the progress of industry. I disagree. I believe that solving such problems will result in a new, superior industrial paradigm and a better world—and that's something I want Canon to contribute to." •

professionals" modeled on London's booming Alternative Investment Market (AIM), a specialist market for growing smaller companies. Since market access will be limited to professionals—necessarily more aware of the risks involved—disclosure requirements will be less demanding, English documentation will be allowed, and a variety of accounting standards (including Japanese ones) will be acceptable. Kayanuma is optimistic that, once the necessary legislation has been passed, foreign, particularly Asian, firms will be eager to list on this new market.



Changing the Cultural Mindset

Innovations like these should enable Japan to piggyback on the breakneck growth of the rest of Asia—rather like the way British capital financed the rise of the United States in the late 19th century—even as its own economy matures. To make sure the infrastructure to support this market expansion is in place, the TSE is investing in a new trading system. A number of embarrassing technical failures in late 2005 and early 2006 ranged from a market shutdown brought on by high trading volumes to a broker taking huge losses when the TSE's system proved unable to cancel an erroneous order. The next-generation system, due in FY 2009, will be world-class, with the speed and capacity needed to deal with algorithmic trading.

Perhaps the biggest obstacles to the government's ambition to turn Tokyo into a global financial powerhouse are mental attitudes. To protect themselves from unwanted takeovers and interference on the part of activist investors, Japanese companies have built defenses like poison pills, equity-diluting private placements, and cross-shareholdings with other companies in the same industry. "This sort of thing may be legally permissible," says Kayanuma, "but as far as we're concerned, it's not right." That's why the TSE is working to change the mindset of managers, pointing out that companies belong to all their shareholders, and it is therefore shareholders' interests that should be companies' top priority.

Some foreign observers are pessimistic about that message ever getting through. But the picture may not be quite so bleak. A case can be made that the stock market is gradually becoming more of a genuine market where companies are brought and sold. Consider Shuhei Abe, the chief executive of Sparx Asset Management. As a major shareholder in the targeted companies, Abe helped engineer glassmaker Hoya's acquisition of camera-maker Pentax, as well as the merger of audio-equipment maker Kenwood with consumer electronics group JVC—both deals that at one point seemed likely to be frustrated by incumbent management. Perhaps even more striking was the success of Steel Partners, an activist U.S. investor, in ousting almost the entire management team of underperforming wig-manufacturer Aderans in late May this year, a first for Japan and an indication that power may at long last be shifting from company management to shareholders.

As we have seen, the Tokyo stock market has many strengths: the world's second-largest market capitalization; proximity to Asia's most dynamic economies; and access to a vast pool of risk capital. But for Tokyo to become a global financial center on a par with New York and London, Japan will clearly have to make improvements in corporate governance and regulatory transparency—and, most difficult of all, cultural attitudes.

"There is no single magic bullet to make Tokyo into a global market," concludes Kayanuma. "An effe't needs to be made to remove things that obstruct overseas investors—taxes, invisible barriers to entry, the language problem, whatever. If we can get things like that out of the way, then we'll become a market truly accessible and convenient for overseas investors." •

Back to the Future

Inspired by a new corporate vision, Kikkoman is expanding its successful business model on a global basis.

As part of a series of events celebrating 50 years of full-scale sales and marketing operations in the United States, last November soy sauce producer Kikkoman sponsored a Japanese concert tour by three "American Divas," Carole King, Fergie, and Mary J. Blige. This June brought another important anniversary: Thirty-five years since the firm opened its first U.S. factory in Wisconsin in 1973. Kikkoman marked this particular milestone by holding a conference, "The Economics of Green," in Milwaukee. "It explored the balance between economic growth and the environment," says Yuzaburo Mogi, Chairman and CEO. Speakers included James Doyle, governor of Wisconsin, and Heizo Takenaka, a former Japanese government minister whose economic reforms are widely credited with ending the country's "lost decade."

As a company with more than 300 years of history, Kikkoman is unlikely to suffer from a shortage of anniversaries. But it is only thanks to a management that routinely thinks hard about the future that the company has so much to celebrate in its past. An example: Mogi used the company's recent 50-year U.S. anniversary as an opportunity to create Global Vision 2020, his view of where he wants Kikkoman to be in the year 2020.

Double-Digit Growth

Unsurprisingly, soy sauce is one of the vision's key ingredients. "We've created a profitable business model for soy sauce in the U.S. over the past five decades, and now we're expanding this model into the rest of the world," says Mogi, who is determined to build Kikkoman soy sauce into the global standard for the industry. He positioned Europe as the next growth area after the U.S., and sales there grew so rapidly from the early 1990s that Kikkoman built a plant in the Netherlands in 1997. European sales are still growing at a double-digit rate, but Mogi already has his eye on developing the Asia-Pacific market from 2015, followed by South America and Africa.

Kikkoman Chairman and CEO Yuzaburo Mogi

Another global business Mogi is excited about is food wholesaling. Kikkoman owns JFC, the world's No. 1 Japanese foods international wholesaler, which is experiencing rapid growth thanks to the surging international popularity of Japanese food, a trend Mogi is convinced is here to stay. "We can triple the size of the wholesaling business by 2020," he says, adding that he wants to make JFC's position "invincible."

Japanese food owes its popularity to two factors—tasting good and being healthy—and part of Mogi's long-term vision is to "help people achieve a healthy life through food." In terms of social contribution, Kikkoman teaches the public about food, whether that means giving Japanese schoolchildren the experience of baking soy sauce-flavored *senbei* rice cookies at its factory in Japan or publishing healthy recipes and tips on its websites.

"As a food company, we have a responsibility to provide society with food education," Mogi declares. Meanwhile, on another front, Kikkoman is expanding into health foods like soymilk. In 2003, it started selling Pearl Soymilk in the U.S., while later this year it will make Kibun Food Chemifa, the market-leading soymilk brand in Japan, into a wholly owned subsidiary.

This March Kikkoman unveiled a new corporate logo designed to reflect the fact that it is now a global business that makes more than half its profits outside its home market. Consisting of the company name in soft logotype Roman letters, representing the joy of eating and appreciation for a healthy mind and body, together with a hexagon-enclosed Japanese ideogram that symbolizes long life, the new logo expresses the fusion of tradition and innovation that has always defined the company. The combination of heritage and progress is certainly powerful—and guarantees there'll be plenty more milestones for Kikkoman to celebrate in the years to come. •

Ready for the Revolution

A long-term focus on environmentally-friendly solutions means Ricoh is well positioned for an energy-constrained future.

"The idea of a small task force battling against the odds to come up with a breakthrough is out of date. The world's just not like that anymore," says Shiro Kondo, president and CEO of office equipment maker Ricoh, referring to a long-running Japanese TV program that dramatizes the stories behind some of the country's key postwar inventions, like the electric rice cooker and the automatic ticket gate. The teams responsible for developing Ricoh's sophisticated digital MFPs (multifunction printers), adds Kondo, often consist of as many as 600 people spread across several countries.

Helping such huge groups of engineers work together more smoothly and productively is one of the challenges Kondo has been working on since taking the reins last year. Reforms he has introduced include allocating R&D budgets strictly according to results; applying the matrix-based project management techniques perfected at organizations like Boeing and NASA to Ricoh's product development pipeline; and encouraging his technical staff to be more marketing-driven and to get into the habit of thinking about products more from the end user's point of view.

"Think about something like music-on-the-go," Kondo says. "An engineer might think about incremental improvement—how to make a player smaller or a battery longer-lasting—but it's coming up with the whole breakthrough concept that resulted in a hit like the iPod." Kondo is determined to train his R&D staff to figure out what customers really want, and to this end he established a customer research institute in the U.S. in 2002 devoted to examining how people work in the real world, and devising ways for them to boost their productivity.

Given that Ricoh reported operating income up 4.1% to $1.8 billion (181.5 billion yen) on a 7.3% increase in net sales to $22 billion (2.2 trillion yen) for the year ended March 31, 2008, the company's efforts to discover and address customers' needs appear to be achieving considerable success. But Kondo wants more: His goal is for every Ricoh product and service to "astonish and delight" customers.

Ricoh President and CEO Shiro Kondo

The Art of Benchmarking

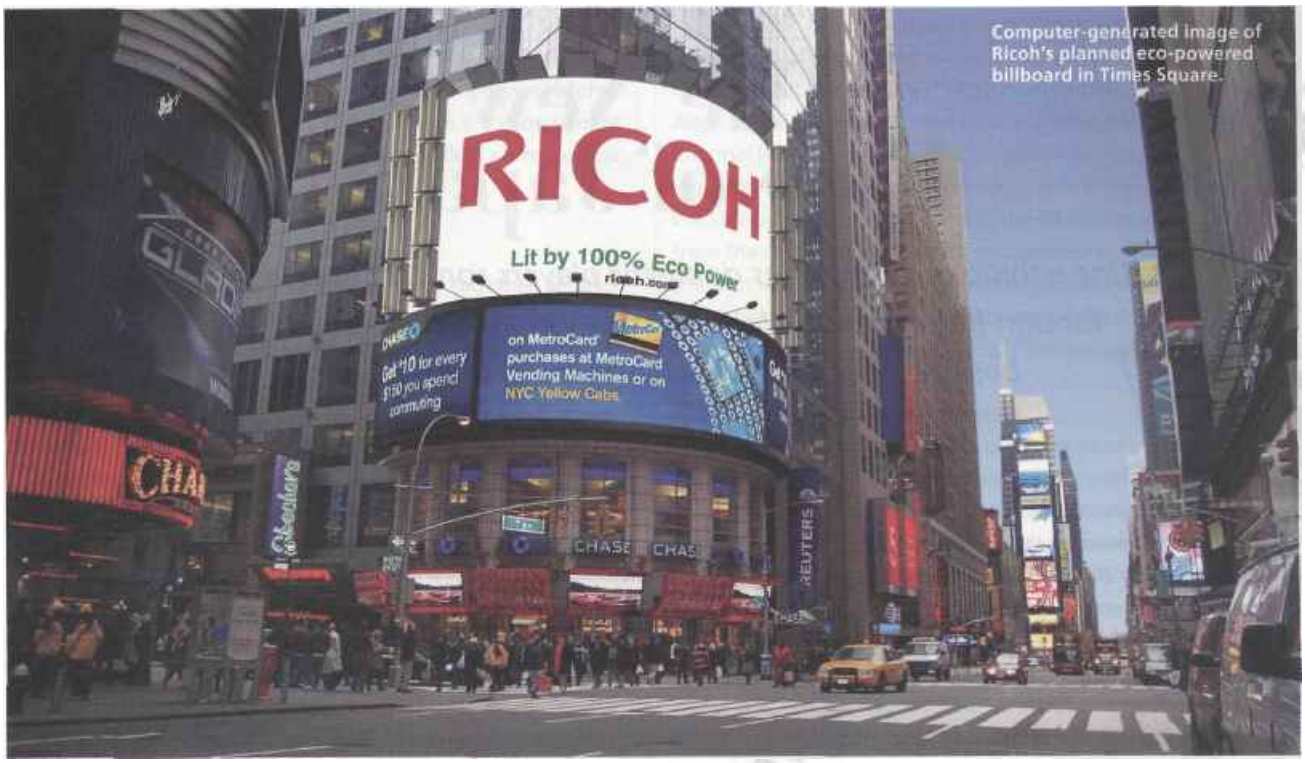
One recent offering that looks set to do just that is "@Remote," a new tool that enables Ricoh to monitor and manage customers' devices across the network (with their permission, of course). Ricoh can detect breakdowns or paper jams, or when a machine runs out of toner. By analyzing this data, the company can suggest ways clients can improve workflow, and even propose ways for them to cut energy use to lower electricity bills and reduce greenhouse gas emissions. "Measuring and helping companies reduce their environmental load like this is something only Ricoh can offer. It's unique to us," says Kondo.

@Remote is a perfect illustration of another way the world has changed, with tailor-made services occupying the top spot in the hierarchy of functions, a position once held by traditional hardware. Kondo is nonetheless adamant that hardware remains an important key to success. While many companies are rushing to jettison their manufacturing abilities to focus on services at the high end of the value chain, he sees long-term risks in this approach.

"Call me old-fashioned," he says defiantly, "but to me, getting rid of our hardware side would be like chopping off your own arms and legs. Over the coming decade or two, hardware needs to be revolutionized. From a short-term standpoint, I can see how outsourcing hardware makes some sense, but in the long term I think it's a mistake."

Leading the Eco Charge

Ricoh's roll call of environmental innovations—from the energy-saving standby mode to organic toner and the use of corn-based plastics for the paper trays



Computer-generated image of Ricoh's planned eco-powered billboard in Times Square.

inside copiers—have earned the company many awards and long made it a favorite with socially responsible investors, but Kondo sees the need for more. "There's a lot of talk these days about a second industrial revolution—an ecology revolution," he says. "This revolution will transform the criteria by which companies are judged." The only firms that will prosper in the future, he maintains, are those that can offer both customer value and lower levels of energy use.

Thanks to Ricoh's two-decade-long focus on environmental issues, it's well positioned for this low-energy future. "The course my predecessor set in the 1990s was right," affirms Kondo. "I believe Ricoh will be one of the leading companies in this upcoming industrial revolution."

To make sure it can offer this kind of energy-saving hardware to major global companies whenever and wherever they may need it, Ricoh is expanding its worldwide production and distribution network. The company's "super configuration center" in California builds, customizes, and ships products direct to clients within a single week. A sophisticated kitting system includes delivery of products to the customer site in plastic, reusable pallets that are then taken back to the plant, leaving nothing behind—a service much appreciated by customers used to the waste and hassle of wooden pallets and disposable cardboard.

Building a Green Brand

Of course, there is one piece of software that no company can afford to neglect: the brand. And as Ricoh positions itself to be the top global provider of advanced solutions to *Fortune* 500 customers, Kondo is determined to raise worldwide awareness of the Ricoh name. As part of this drive, December 2008 will see the unveiling of a gigantic Ricoh billboard in New York City's Times Square. "It's no ordinary billboard," explains Kondo. "It will light up, but the electrical power will all come from environment-friendly sources—a combination of wind turbines and solar panels."

Harmonizing with the environment, simplifying your life and work, and supporting knowledge management are the three core values of the Ricoh brand, and clearly the New York City billboard will establish an explicit link between Ricoh and the environment. Kondo sees it as a first, half-playful step in getting a bigger message across—that Ricoh can provide a consistently high level of products and services on a worldwide basis. "I want customers to trust us," declares Kondo. "I want them to choose us and then be pleased that they did. There are all sorts of services—like @Remote—that Ricoh alone can provide, and a strong brand can help people wake up to what's unique about us."

Ricoh's combined offering of consulting services with low-energy-consuming hardware has put it in a strong position, regardless of the current economic headwinds. "Yes, we're waiting for the U.S. economy to recover," says Kondo, "but the economies of Europe and Japan are steady, while Asia is booming. You'll soon start to see the benefits of our acquisition of the printing systems divisions of Hitachi and IBM. The outlook's bright for Ricoh." •

Japan's Growth Quotient

The New Face of Japan

Unearthing opportunities domestic players sometimes overlook, foreign investors are planting stakes in Japan and importing business models that are reshaping the economy.

When Australian entrepreneur Colin Hackworth went skiing in Niseko on Japan's northernmost island of Hokkaido in February 2003, he only planned to stay two weeks. But he was so taken by the quality of the snow that he went straight to the nearest lift, got the name of the operator, and set up a meeting. In 2004 he ended up buying one arm of the mountain, complete with lifts, roads, a golf course, and 60 hectares (148 acres) of developable land. Hackworth's timing was impeccable. Not only was the yen relatively weak, but the government was no longer permitting Japanese companies to carry bubble-era assets on their books at inflated prices. That meant the original owner, a large Japanese developer, was happy to sell.

Unlike the Americans and Europeans, who often spend a week to ten days at a ski resort, Hackworth noticed that the Japanese preferred short trips. The "destination model"—ski villages with a range of shops, restaurants, and other apres ski distractions—had never taken root. Convinced that if he created a "world-class tourism product" in Japan, other nationalities would happily fly in to take advantage of the low prices and top-class snow, he established a ski school, ski rentals, and ski shops—basic services which hadn't existed until then—to bring Niseko up to the level of North American resorts like Whistler and Vail.

The numbers speak for themselves: The tally of Australian visitors has risen tenfold in four years, from a mere 2,000 in 2003 to 20,000 in 2007, while people from Singapore, Malaysia, and Hong Kong are also coming in droves. Property values in much of Japan still languish in a post-bubble swoon, but condominiums in Niseko are rising in value by over 30% per year. Indeed, the success of Nihon Harmony Resorts, Hackworth's company, was so notable that it was snapped up by Pacific Century Premium Developments, a company owned by legendary Hong Kong entrepreneur and investor Richard Li.

What lessons can foreign investors in Japan draw from Hackworth's experience? First, the Japanese are happy to sell underperforming businesses to foreign buyers; and second, foreign owners can sometimes bring in new, and possibly less introverted, ways of thinking that can transform a basket case into a cash cow. Carmaker Nissan, acquired by Renault of France and turned around by the charismatic Carlos Ghosn, is another case in point.

Reinventing the tourism industry: Colin Hackworth of Nihon Harmony Resorts

Colin Hackworth

Japan's welcoming tone reflects a change in policy. Since 2001, Japan has aggressively sought foreign direct investment in response to an aging population and shrinking workforce. FDI more than doubled from $62.8 billion (6.6 trillion yen) in 2001 to $143.8 billion (15.1 trillion yen) in 2007, according to the Ministry of Finance.

Underexploited Human Resources

While Hackworth found success by bringing together an ignored class of consumers (foreign skiers) with an underexploited natural resource (top-class snow), Swedish furnishings retailer IKEA has been tapping an underutilized human resource: Japanese women. Some 46% of IKEA's top management in Japan are women—a high level for a traditionally male-dominated society. (2005 International Labor Organization figures show women in Japan hold a mere 10.1% of all management jobs.) But this generous female representation has nothing whatsoever to do with tokenism. "IKEA actually believes that gender diversity in leadership and management is important for getting better decisions," says president and CEO Lars Petersson.

The company has 16 different nationalities represented in its almost 2,000-strong staff in Japan for the same reason: to get more diverse viewpoints and to better stay on top of ever-changing market needs. Since IKEA just opened its third Japanese store in only two years, this mix of genders and nationalities is clearly producing the desired results.

Lars Petersson of IKEA Japan

Dispelling Cultural Misconceptions

When opening a new store anywhere in the world, the local IKEA staff participates in field surveys about the home life of the people. In Japan, contrary to the popular myth that people live in cramped "rabbit hutches," the IKEA teams discovered that Japanese homes are not that small after all. "It might come as a surprise, but statistically they are not smaller than the inner cities of Paris or London," says Petersson.

Restrictions on big-box retailers—which only applied to small towns—had been lifted long before IKEA decided to move into Japan. "The biggest reason for us to come to a country is whether we can make our supply-chain work well," he explains. "Our supply-chain is a big part of our competitive advantage and it's complicated to get things from inner Poland to an island where we have no production at all."

Another success story is Indian IT-service company Wipro. Active in Japan since 1998, it never found bureaucratic obstacles or reluctance to work with a non-Japanese player much of an issue. However, the complexities of the Japanese language were a different story. "We wanted to overcome the language problem at the earliest stage possible," explains president and CEO Hiroshi Alley. "So eight years ago we built a Japanese training center in Chennai [Madras] where we train our Indian engineers in reading, writing, and Japanese culture on a nine-month course called the Shinpo Program." This year some 80 engineers will graduate from the course ready to work on Japanese projects. Since a further ten to 15 engineers are deployed offshore for every bilingual engineer, the leverage effect ensures that Wipro's Japanese clients get a considerable boost to their bottom line.

Global Standards of Excellence

This kind of education is not a one-way street. Take private banking. Despite the sophistication of the Japanese economy, the concept of wealth management is very new. Domestic banks have tended to concentrate on corporate and commercial banking rather than individuals. This means little awareness of personalized wealth management even among the wealthy, and a short supply of human resources with the right skill set.

To address the shortage, UBS Wealth Management decided to launch its Associate Program last year. The program offers new Japanese hires a fully paid one-year program that mixes classroom training with stints in the investment bank and asset management division, as well as on-the-job coaching, all culminating in a diploma.

"It's important that we have a global standard like this to ensure our young talent meet a certain level," states Jean-Claude Humair, managing director of UBS Wealth Management, Japan.

UBS only entered the Japanese market in 2004, but its presence has already stimulated local banks to offer similar services. Humair, however, embraces the competition: "We welcome the fact that domestic financial institutions are now interested in the concept and in developing wealth management. It is very positive for the consumer."

And that brings us to perhaps the most important point, and one that all overseas investors in Japan—whether in private banking, retailing, IT, or resort development—seem to agree on: Foreign direct investment is never a zero-sum game. Foreign company A coming into Japan never means that Japanese company B is going to be driven out of business, according to Humair. On the contrary, the advent of new players leads to heightened awareness and a bigger market pie—a win-win situation for not just Japanese and foreign businesses, but the Japanese consumer, too. •

Open for Business

Japan is actively courting foreign direct investment in an attractive market where foreign companies tend to do well.

When Korean-American entrepreneur Greg Lee decided to expand from producing TV animation into creating online games in 2006, he quickly recognized the advantage of having a base in Tokyo. "Japan has dominated the gaming industry for decades," he explains. "So it can provide well-trained producers and project managers—crucial positions for me because they manage budgets and milestones." Lee's company, NCONY Enterprise, now has a ten-person production team in Tokyo collaborating with 50 developers in Seoul, Korea, while his online game *Pi Story,* a fantasy quest with cute, Japanese-style animation, is due to debut this summer. Lee is confident that its unique combination of Japanese and Korean craftsmanship will give it a sizzle the online gaming community will find irresistible.

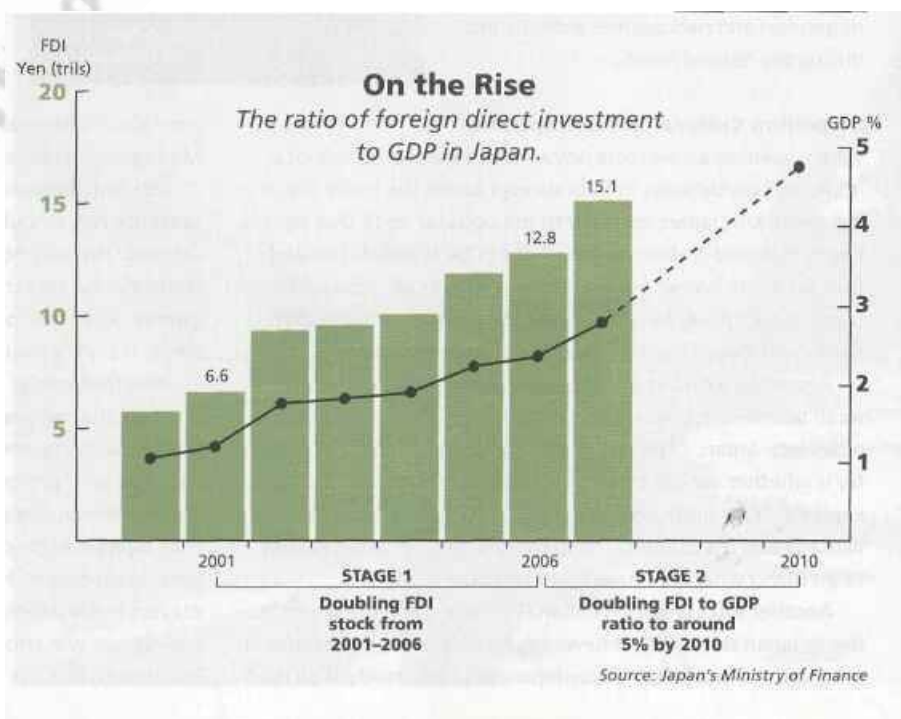
But on the subject of challenging quests, isn't Japan supposed to be an impregnable fortress closed to outsiders? Not, says Lee, if you take advantage of the services offered by JETRO, the government agency devoted to boosting Japan's level of inward investment. JETRO not only assisted Lee with matters like obtaining visas and filing for incorporation, they also provided free serviced office space in downtown Tokyo for a 50-day period, meaning his company could hit the ground running. "Without JETRO I'd probably have faced a lot of headaches, because Japan is a bureaucratic country," confides Lee. "But their one-stop turnkey solution for foreign investors is completely hassle-free. I was impressed."

A Magnet for Investors

It was in 2001 that Japan started actively courting foreign investors. after then-Prime Minister Junichiro Koizumi resolved to double Japan's foreign direct investment (FDI) by 2006. "The FDI number rose from U.S. $62.8 billion (6.6 trillion yen) to U.S. $121.9 billion (12.8 trillion yen) over five years, so the target was almost achieved," explains Keiichi Kawakami of the Ministry of Economy, Trade, and Industry (METI), adding that the Japan Investment Council—the committee established to promote inward investment—sustained this forward momentum by setting a follow-up target to double the value of inward investment from 2.5% of GDP in 2006 to 5% of GDP by 2010.

Why so keen on FDI all of a sudden? Basically, the answer lies in demographics. Like so many other developed economies, Japan's aging population and falling birthrate mean the labor force is getting smaller, while a lower household savings rate means there's less capital around to fund Japanese companies. "Japan needs to integrate more fully into the global economy," Kawakami explains. "And foreign investment is the best way to import the technologies, capital, and management know-how needed to sustain Japan's growth."

To ensure the country gets the investment it needs, the Japan Investment Council devised what it calls the "Inward FDI Acceleration Program." This aims to create a welcoming environment for foreign investment by addressing foreign corporations' concerns—streamlining cross-border M&A, for example—and attending to the lifestyle needs of non-Japanese with facilities like international schools and hospitals. The program also encourages investment in Japan's regions by inviting overseas companies to regional industrial clusters.



On the Rise

The ratio of foreign direct investment to GDP in Japan.

Source: Japan's Ministry of Finance

But perhaps the most crucial of the plan's three pillars is getting the message out that Japan is truly open for business. This is where JETRO comes in, showcasing Japan's attractions as an investment destination at seminars around the world and then providing the practical support that gave such a boost to Greg Lee's company.

At the local level, Japan's regions are energetically courting foreign investors. Yokohama, a thriving port city just outside Tokyo, is a case in point. Determined to reinvent itself as an IT hub, it wooed Indian companies to its redeveloped dockside area in the early 2000s. Wipro—one of six Indian IT service companies now located there—moved to Yokohama in 2002. Says Hiroshi Alley, Wipro Japan's president and CEO: "Rent assistance when moving; local tax incentives; help with recruiting from local universities; proximity to campuses—some of these things contributed to our moving to Yokohama."

Prosperous Test Market

Japan's greatest attraction has to be the sheer size of its economy, second in the world after the U.S. and accounting for 9.1% of global GDP. This prosperity certainly appealed to UBS, which launched its wealth management business in Japan in 2004. The last decade has seen the emergence of many young Japanese entrepreneurs who've made it big in fields like IT and real estate, says Jean-Claude Humair, managing director of UBS wealth management in Japan, who sees "huge potential" in the country.

And the Japanese are not just wealthy. They are also renowned for their sophistication as consumers. Swedish retailer IKEA came in 2002 and now operates three of its signature blue and yellow stores around Japan. Lars Petersson, president and CEO, has nothing but praise for local shoppers. "They're very well educated, so they understand the difference between a product that's high-performance and low-cost rather than the opposite," he argues. "That's to IKEA's advantage because consumers understand they get so much more for their money here."

The demanding quality of Japanese consumers makes Japan an excellent pilot market: A product that scores big there is likely to be a hit elsewhere. One company that found this to be true is U.S.-based color specialist Pantone. The U.S. firm established a direct presence in Japan in 2006, and quickly teamed up with cellphone operator Softbank—then a distant No. 3 in the market—to design an eye-catching range of phones in Pantone's trademarked colors. Launched in January 2007, the stylish phones—together with aggressive price plans and a glitzy ad campaign—helped Softbank sign up more new subscribers than its rivals in the 12-month period ending in March 2008. "We've used Japan as an incubator of Pantone's colors and trademarks being applied to consumer goods," explains Richard Herbert, the executive vice president and general manager of Pantone, which is now extending the model to products in the U.K.

Tapping the Japanese market: Korea's online game maker NCONY Enterprise got help from JETRO to set up shop in Tokyo. (top); U.S.-based color specialist Pantone teamed up with Softbank to design a line of chic cellphones for the Japanese market. (bottom).

Tradition of Partnership

In Japan there is a strong cultural tendency to keep promises and honor commitments, making Japanese companies reliable long-term partners. As head of a firm that enjoys excellent relationships with blue chips like Toshiba, Sony, and Olympus, Wipro Japan president and CEO Hiroshi Alley points out that outsourcing is very much part of the traditional Japanese business model, meaning that newcomer Wipro experienced no resistance, as "the only change to the original model was to bring in an outside player from a foreign country."

Of course, the acid test when deciding to invest or not has got to be: Will I make money? A recent U.S. Department of Commerce survey of the profitability of American companies' overseas investments suggests the answer is yes. It showed U.S. businesses in Japan enjoying an average return on their investment of 14.3%, versus a mere 6.0% in the U.K. and a global average of 11.9%.

Clearly, an increasing number of foreign investors see Japan as a good place to do business, but the country still wants more. "I want to make it clear that we welcome FDI and will continue to offer all the support we can," METI's Kawakami declares. —**Giles Murray**

An Architect of Fiscal Reform

Japan's Minister Ota discusses how the government plans to stimulate the economy and entice foreign investment.

One of the champions of economic change in Japan is Hiroko Ota, the country's first female Minister of State for Economic and Fiscal Policy. A former economics professor at the National Graduate Institute for Research Policy Studies, for the last two years Ota has been focusing on removing any impediments to Japan's integration into the global economy. In an exclusive interview with *Fortune* Custom Publishing she explains why her country is so keen on boosting foreign investment.

Japan's ratio of foreign direct investment (FDI) to *GDP* is low compared with other G-8 countries. Why?

Our geographical location and the language barrier play a part in this. Plus, Japan's traditional strength in manufacturing has meant that Japanese companies have tended to invest abroad more than foreign corporations have invested here. That trend is responsible for our low level of FDI. But as the world globalizes, we realize attracting FDI is vital to our economic growth. That's why in 2001 and 2006 the Japanese government launched two "FDI-doubling" plans. Now the Expert Committee on FDI Promotion has developed a program to increase Japanese FDI even further.

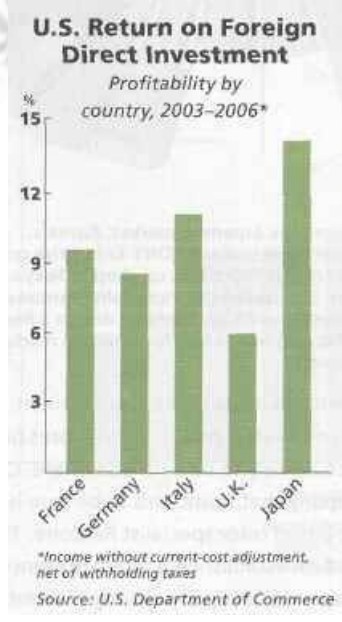
increase its FDI ratio?

With globalization proceeding at such a torrid pace, FDI is important for every country. This is even more critical in Japan's case since our population is declining. We need to import the best technology and know-how to maintain our economic vibrancy and boost productivity. This is especially key in the service sector that accounts for 70% of GDP.

Raising the level of FDI is also synonymous with creating a more business-friendly economy. Japan still retains the so-called Japanese-style system, the mechanism that underpinned our economic growth in the postwar high-growth period. This old system was all about long-term relationships: things like lifetime employment, cross-shareholdings, commercial transactions within *keiretsu* or between parent companies and subsidiaries, and so on. That system is now breaking down and evolving into something new. Seen in that context, the creation of a new business-friendly system more suited to the times will produce an environment that's more beneficial to both domestic and foreign firms.

Are there any FDI strategies other countries have ysed **that are worthy of imitation?**

Japan can learn from international best practices. Take Ireland: It used to have the lowest standard of living in Western Europe, but in the 1990s it decided to focus on securing foreign investment. At that time, it made wide-ranging structural reforms; afterwards FDI grew significantly. Japan should take a similarly positive approach.



What practical steps must Japan take to change the tide and improve the investment climate?

There are three things we must do: remove structural obstacles; promote ourselves to the rest of the world so Japan is not perceived as more closed than it really is; and promote the concept of FDI domestically.

The Expert Committee on FDI Promotion identified three kinds of obstacles companies face. First of all, it is often very complex and cumbersome for foreign firms to deal with Japanese government agencies. That's because each is vertically separated in a silo system and has its own distinct set

Champion of change: Hiroko Ota, Minister of State for Economic and Fiscal Policy

of procedures. Another concern for investors is that some government rules and regulations are short on transparency, and it is not always clear which are applicable. And finally, Japan's corporate tax rate is considered high by OECD standards.

As for wooing foreign investors, Japan has 47 prefectures and it's difficult for them to promote themselves overseas on their own. They've started consolidating. For example, Nagoya in Aichi Prefecture—home of Toyota—has teamed up with surrounding prefectures to promote itself as "Greater Nagoya."

At home the challenge is that the Japanese are not that familiar with the idea of FDI. We need to educate them-show them successful examples like the Australian-financed ski resort in Niseko, Hokkaido—so they see how foreign investment creates jobs and helps regional development.

What cultural obstacles are there?

I can't deny that there is a level of resistance to foreign investors in Japan. We absolutely have to overcome this attitude and come up with clear-cut, principles-based, non-discriminatory rules that apply equally to foreign and domestic players. Of course, there are national security-related cases that might have to be treated as exceptional, but adhering to the non-discriminatory principles should always be paramount.

I spoke about bureaucratic obstacles earlier and how the silo system in which government agencies operate can act as an impediment. Leadership is crucial to overcome this issue. At this year's Davos World Economic Forum, Prime Minister Fukuda clearly stated he was going to make Japan "a country open to the world." Now everyone in the government needs to address this particular obstacle.

What are **your long-term** economic goals?

I think Japan should become a platform for high-value-added knowledge creation. Creating such an economy will entice foreign investors. I also want Japan's economy to grow along with the rest of Asia. That will be good for us, and for Asia, too.

Finally, do you have a message for foreign businesspeopie?

Japan has a wealth of human resources, capital, and technology. The level of education is high, people work hard, and many of our young people can speak English. Our nation is an attractive place to live. It is safe, and has clean cities, friendly people, and delicious food.

We're opening the country up as part of our economic growth strategy. In 2007 we introduced the Asian Gateway Initiative to better integrate Japan with the rest of Asia, through measures like streamlining trade procedures and liberalizing the aviation sector. We also launched a plan to boost the international competitiveness of the financial and capital markets last year.

Lastly, I want to get the word out that Japan will grow in the future. The Japanese economy stagnated for a long time after the bubble burst, but the country is over that now. Starting last year, both the Abe and Fukuda administrations drew up comprehensive strategies for growth, and coming to grips with globalization was at their core. Yes, some aspects of Japan's move to globalize were a little behind, but we're making up for lost time now. •

Building a Global Brand

From machinery and textiles to food and energy, the operations of ITOCHU span the continents.

ITOCHU President and CEO Eizo Kobayashi

ITOCHU in the late 19th century.

ITOCHU may have been founded "back in the time of the samurai," as Eizo Kobayashi, its president and CEO, likes to point out, but the trading company, which marks 150 years in business this year, shows no signs of age. For the fiscal year ending March 31, 2008, ITOCHU reported net income up nearly 24% to $2.18 billion (219 billion yen) on revenues of $28.6 billion (2.86 trillion yen), the fourth consecutive year of increased sales and profits. "Six out of seven divisions increased profits, with machinery and textiles setting record highs," says Kobayashi. "But the main driver of performance was lofty energy and natural resource prices."

Almost 50% of ITOCHU's net income last year was generated by the energy, metals, and minerals division. Its oil and gas interests range from upstream—equity investments in Sakhalin, Russia (with ExxonMobil) and Azerbaijan (with BP) for example—to downstream, with a subsidiary that operates 2,200 gas stations throughout Japan. "We're also involved in iron ore production with BHP Billiton, and in coal production with Xstrata in Australia," says Kobayashi, "and we're working on mineral development opportunities in Asian countries like China, plus South Africa and Latin America."

Whatever the benefits of the current commodity super-cycle, all seven of the company's divisions are contributing to its success. Chubei Itoh, ITOCHU's founder, was himself a cotton merchant, and textiles remain a core competence. Attracted by a well-organized value chain covering design, manufacturing, and sales, many of the world's major brands, including household names like LANVIN and Paul Smith, have collaborative relationships with ITOCHU. "With some brands, we import the finished product and resell it in Japan. With others, we own the trademark and do the manufacturing," says Kobayashi. "Sometimes, as with LeSportsac, we buy the company outright." Kobayashi is busy adding to ITOCHU's stable of 150 brands at the rate of 10-15 a year, and is targeting China for aggressive expansion.

This focus on foreign markets—characteristic of ITOCHU since it opened its first overseas office in Shanghai in 1907—is now part of the company's DNA. Typical is how FamilyMart, one of Japan's largest convenience store chains, in which ITOCHU holds a 31% equity stake, chose to address Japan's population challenge. "Japan's population is falling, but world population is rising. That's why FamilyMart started to advance into the global market almost 20 years ago. We will cooperate with FamilyMart in boosting store numbers to 20,000 worldwide, mainly in Japan, Taiwan, Thailand, South Korea, China, and the U.S. " says Kobayashi.

Seizing new opportunities based on a canny reading of demographic, industrial, or social megatrends is one part of the ITOCHU legacy Kobayashi wants to retain, but he recognized that the company's human resources policy was in need of updating. "For most of our history, we recruited new university graduates, always male and always Japanese. But we've officially changed that and now hire regardless of nationality, gender, or age," he says, adding that 30% of ITOCHU's Japanese graduate hires are now female.

Serious not just about diversity, Kobayashi also wants to develop a generation of employees—and future managers—with a genuinely global perspective. To this end he's set up a system whereby all new Japanese hires get posted abroad within four years to develop fluency in English and to get acquainted with foreign cultures, while 160 foreign employees are brought over to Tokyo every year for training in Japanese business mores. Farsighted reforms like these—not to mention annual overseas earnings of $1.11 billion (111 billion yen)—should guarantee that Kobayashi achieves his aim of turning ITOCHU into a "real global enterprise within ten years." •

Leveraging more than a century's worth of printing expertise, Toppan is aggressively expanding into new and related fields.

"We used to be described as 'a gentlemanly firm that lacked aggression,'" says Naoki Adachi, president and CEO of Toppan Printing. "We'd been No. 2 in our field for 47 years. It was a cozy niche and we'd gotten used to it. But when I took the reins in 2000, I proposed seeing how we'd like taking, then holding on to the No. 1 spot."

Toppan's more than 10,000 employees rose to the challenge. The company reported consolidated net income of $385 million (38.5 billion yen) on consolidated net sales of $16.7 billion (1.67 trillion yen) in fiscal 2007, when the exchange rate was 100.19 yen to the dollar, making it Japan's—and the world's—top printing company in revenues for the third consecutive year. Adachi's next goal: seize the top spot for profits. "One advantage of being frontrunner is that information flows to you," he says. "Government ministries and large corporations with a major project in mind automatically consult the No. 1. Plus, the resulting sense of pride inspires employees."

Another source of pride for Toppan's people is their company's unique character. Originally founded by a group of entrepreneurs to print securities and bank notes for the Ministry of Finance, the venture spirit that motivated them became part of Toppan's DNA, driving its expansion into commercial and publications printing, security and cards, packaging and industrial materials, electronics and IT. What is the unifying factor behind these seemingly disparate businesses? They all derive from the core competence of printing.

Micro-fabrication skills based on printing technologies, for example, prompted Toppan's move into making the photomasks used to produce semiconductors.

Naoki Adachi, president and CEO of Toppan Printing

Toppan is now global leader in this field, with a 30% market share thanks to the 2005 acquisition of DuPont Photomasks and technology co-developed with IBM. It holds a similarly dominant position for LCD color filters used in televisions, cellphones, and PCs. "Global demand for LCD TVs is rocketing, so we're building a new factory to produce filters 2,850 millimeters by 3,050 millimeters for the tenth generation of TVs," explains Adachi.

Toppan's expertise in printing securities that defy attempts at forgery is finding new outlets as counterfeiting becomes a global problem. No less than 12 countries have selected Toppan equipment to print their citizens' passports. The company also produced ID cards with sophisticated anti-counterfeiting features for all 100,000 athletes and officials at a recent Olympic Games. Meanwhile, inside Japan, Toppan leads the booming market for IC cards used in banking and on public transport; it also produces the Union Pay card, China's most popular debit card. The company hopes to use the Beijing Olympics (2008) and the Shanghai World Expo (2010) as a way into China's ID security market. "Security-related printing is a business that's sure to grow," confirms Adachi.

He is also looking overseas and at new technologies for opportunities. The company operates 19 factories in 11 countries and one region worldwide, but foreign sales account for just under 15% of Toppan's total, a figure Adachi plans to boost to 30% by 2015. He's also confident that by exploiting the firm's strengths in micro-fabrication, IT, and coating technologies the firm's 500 researchers are helping to develop the business domains of the future, like life science and custom medical care. Soon-to-be-commercialized successes include the SNP chip, which uses a single drop of blood to analyze a person's genetic makeup, enabling doctors to provide personalized medicine, and organic electro-luminescence (EL) for displays and lighting.

For Adachi, success is about excellence not just in business but in CSR and environmental responsibility, so he was delighted when Canada's Corporate Knights Inc. selected Toppan as one of the Global 100 Most Sustainable Corporations in the World both this and last year. "Our main goal has always been to be trusted and respected. That's the precondition for being a strong company," he concludes. •

A Model of Sustainability

A unique environmental project promises to give Tokyo a fresh breath of life.

The industrialized waterfront of Tokyo Bay is a gloomy reminder of the environmental price of rapid economic growth. With the exception of night shots of the city skyline, there are no postcard views from here. But change is in the air.

The Tokyo Metropolitan Government is transforming an island of refuse, the Inner Central Breakwater Reclamation Area, into a giant forest. Supported by residents, businesses, and nonprofit organizations, children from 14 schools are growing seedlings that will be planted at the site, dubbed *Umi-no-Mori,* or Sea Forest.

The endeavor is more than a symbolic facelift. In addition to providing greenhouse gas-absorbing foliage, the island sits in the direct path of prevailing sea breezes. It is therefore also envisaged as a heat sink that will ease the sweltering summer temperatures of the city center.

Sea Forest is part of a broader initiative: Tokyo's Big Change, a ten-year plan set out in 2006 that aims to boost the city's image as part of its bid for the 2016 Olympic Games. Goals include encircling Tokyo with a green belt of parks, eliminating traffic congestion through loop roads, and removing unsightly utility poles.

The Sea Forest project has drawn the support of key names in the environmental movement, including Nobel laureate Wangari Maathai, renowned architect Tadao Ando, and U2's Bono. The three recently participated in a series of tree-planting ceremonies at the Sea Forest site.

Green vision: Nobel laureate Wangari Maathai has supported the Sea Forest project.

Champions of Change

Maathai was awarded the Nobel Peace Prize in 2004 in recognition of her contribution to sustainable development. She founded the Green Belt Movement, a grassroots organization that has planted over 40 million trees across Kenya to prevent soil erosion. After hearing the Japanese word *mottainai,* or waste not, she started the *Mottainai* Campaign in Japan, which advocates waste reduction and recycling and has played a key role in the Sea Forest project.

With its roots in Buddhist terminology, *mottainai* hints at intrinsic links between all things. In the context of the environmental campaign, it has become a rallying cry to reassert the importance of treating both living and nonliving things with care.

Speaking at the Sea Forest site on May 31, Maathai took the opportunity to appeal to international leaders gathering on the eve of the Group of Eight (G-8) Summit, hosted by Japan on the northern island of Hokkaido. "When the G-8 leaders come here they are going to discuss several issues, one of which is the Three Rs: Reuse, Reduce, and Recycle. I hope they will also discover the spirit of *mottainai* and incorporate that concept into the discussion," she said.

"I hope that when the conference is over, the message is sent to the world that all of us can find something that we can do as our own *mottainai,"* she urged. "And since one of

the major crises facing the planet is global warming, we should engage in *mottainai* activities that reduce greenhouse gases. For some of us, we may decide that we will walk instead of driving our cars, or switch to energy-saving bulbs. We all have our role in promoting this campaign."

A Greener Path

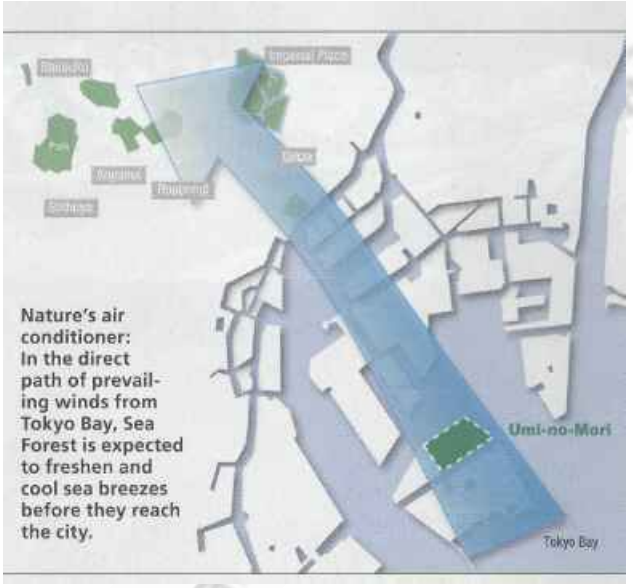
Japan's environmental movement has its roots in the 1950s and 1960s, when the country's rapid economic growth left scars far deeper than unsightly industry. Pollution in some parts of the country devastated entire communities. Famously, the methyl mercury compounds dumped by a factory into Minamata Bay led to the discovery of Minamata disease in 1956. Similarly, cadmium poisoning in the Jinzu River led to the debilitating *itai-itai* (ouch-ouch) disease, symptoms of which included softening of the bones and kidney failure. These human costs are at the foundation of the modern environmental conscience in Japan.

Ando, a former professional boxer turned architect and now environmental activist, noted that environmental degradation is not limited to Japan but is occurring across the world. "We will not be able to sustain the planet unless every one of us starts thinking about what we can really do to save the environment," he says. "Sea Forest is created on a mountain of our own waste, so I think it would be great if the project could become a showpiece for the world of a recycling-oriented society," he adds.

Ando is a central figure behind the Green Tokyo Fund, which solicits contributions for projects to increase the amount of greenery in Tokyo, including Sea Forest. The fund underscores the government's efforts to create a grassroots movement to help improve the environment.

"The size of Sea Forest is about 80 hectares, and there is some significance to this," Ando said. "It is about the same size as Tokyo's largest parks in the center of the city center, as well as the Imperial Palace. According to [Mamoru] Mori, the Japanese astronaut, the only architecture on the face of the Earth visible from space is China's great wall. But he also says that with its size, astronauts will be able to see Sea Forest from above."

Tokyo is transforming an island of refuse into a giant sea forest. The project is more than a symbolic facelift. It will provide greenhouse gas-absorbing foliage and ease sweltering summer temperatures.



Nature's air conditioner: In the direct path of prevailing winds from Tokyo Bay, Sea Forest is expected to freshen and cool sea breezes before they reach the city.

A City Celebrating Nature

Transforming a mountain of trash into an oasis visible from orbit is no easy task, however. The island is the accumulation of around 12.3 million tons of municipal waste dumped from 1973 through 1987, with alternating layers of three meters of refuse and 0.5 meters of soil. This is now being capped with 1.5 meters of surface soil.

The island will include woodlands of evergreen and deciduous trees for nature-watching and camping, and an open meadow area for relaxation and events. In total, around 480,000 seedlings will be planted. The project will also feature a seaside sanctuary formed by a creek running from a pond on the island through a marsh, to a tidal pool, and out to sea.

In addition to its function as a wind passage to cool the city center, the island will also focus the city's recycling activities, with soil for the forest being created from waste soil from water purification plants, and from heat-treated sewage sludge. The forest floor will be rejuvenated with compost made from pruned branches and leaves from city parks and roadsides. The project is due for basic completion in 2016, although the full development spans 30 years from 2007.

"One of Tokyo's goals is to become a beautiful city, surrounded by corridors of water and greenery," said Hideo Sugawara, Vice Governor of Tokyo, in his opening remarks at one of the site's tree-planting ceremonies.

As the city works toward fulfilling this dream, there is indeed the possibility that for the children who planted the first seedlings. Sea Forest will one day offer something closer to a postcard view of their city. —**Kai Ruthrof**

Banking on Green

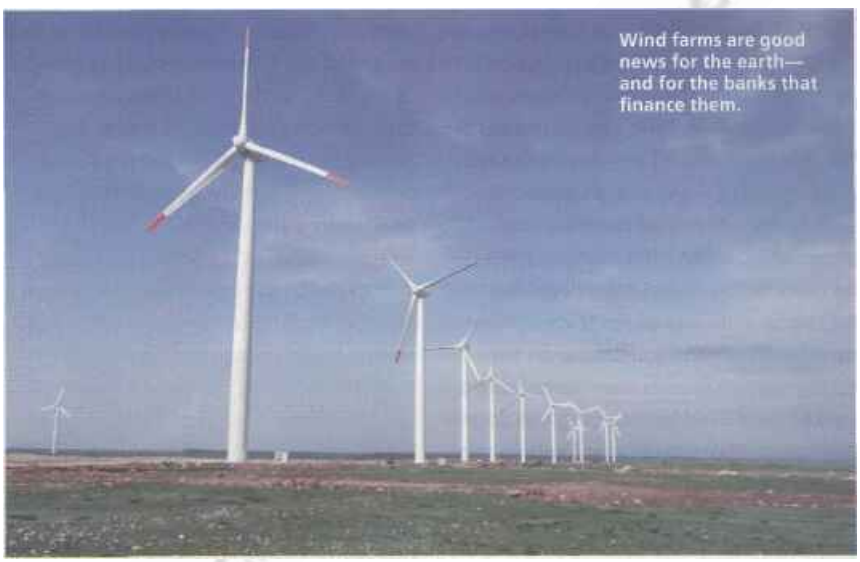
Financing renewable energy projects is enabling Mizuho to flourish while helping to combat global warming.

What do 35 wind turbines overlooking the Black Sea in Bulgaria have to do with 40 tons of recycled toilet paper in Tokyo? What's the connection between a solar power plant in Tenerife, Spain, and soap made from leftover cooking oil? Answer: They're all part of Mizuho Financial Group's effort to help create a more sustainable society.

The company has a two-pronged strategy for its environmental activities. On a global basis, Mizuho is promoting the use of renewable energy by providing project financing for the building of wind farms and solar power plants; closer to home in Tokyo, it's busy making its own offices—which utilize common resources like electricity, water, and paper—more environment-friendly. Mizuho intends to reduce greenhouse gas emissions at 10 key business sites by 20% by 2012 compared with FY 2002. Recycling old financial journals into 40 tons' worth of toilet paper per year and turning old cooking oil from staff cafeterias into soap, fertilizer, paint, and ink are all part of this drive.

Mizuho's renewable-energy financing activities date back to 1999 when the firm started arranging funding for wind farms in Japan. Things took off internationally in January 2006 when a project finance team specializing in renewable energy was set up in New York. "We didn't take the usual Japanese approach of promoting from within, but shopped outside the organization for the best talent," says Masatoshi Abe, head of power and infrastructure in the global structured finance division. "We've been on fire ever since."

The results were immediate and spectacular. Mizuho ranked as the global No. 2 arranger of renewable-energy financing in 2006; in 2007 the group was top lead arranger in the Americas for number and value of project-financing transactions. "Of the 18 projects we led the financing for in the Americas during 2007, a full seven were related to renewables," says Abe. "That shows our commitment."



Wind farms are good news for the earth—and for the banks that finance them.

Clean energy does best where governments have effective incentives in place. It's no surprise that seven of the top ten countries for installed wind-power capacity are in Europe, where the EU is planning to generate 20% of its power from renewables by 2020. Abe sees enormous potential in the emerging markets of Eastern Europe and is determined to get in on the ground floor; Mizuho acted as financial advisor and lead arranger for Bulgaria's first wind farm at Kaliakra on the Black Sea, due to come online in July. The $79 million plant will provide electricity equivalent to the annual needs of 24,500 households, and will also generate 80,000 annual carbon credits that companies can purchase as a way of offsetting their own greenhouse gas emissions—a market that seems set to boom in coming years.

Wind is the most commercially viable form of renewable energy at present, but Mizuho is also supporting solar and up-and-coming energy sources like biomass in developing regions of the Middle East. It has also led the financing for a 130,000-square-meter solar generation plant on the sun-drenched Spanish island of Tenerife, just off the northwest coast of Africa. As part of the Spanish government's program to build green energy capacity, the plant's entire output is due to be purchased by a subsidiary of Spain's largest electric power company, Endesa, for 25 years after operations start late in 2008.

"People all over the world are more and more conscious of the environment, and our clients are more and more interested in the business opportunities," declares Abe. "This business can only grow." No doubt about it. The sun certainly seems to be shining on Mizuho's various environmental initiatives. •

Working with Nature

Toray is adept at finding opportunities even in the most challenging business environment.

Fascinated by Charles Darwin since high school, a 2006 trip to the Galapagos Islands off the coast of Ecuador—the opposite end of the earth from Japan—proved a dream come true for Sadayuki Sakakibara, president and CEO of the integrated chemical company Toray. Among the many species he came across, Sakakibara reserves his special enthusiasm for the elephant tortoise. While the specimens on the fertile eastern islands were large, short-necked, and lived by cropping the abundant grass, those on the barren western islands were smaller, with long necks to reach up to the cactus leaves, the only vegetation available. "Being big or strong is irrelevant," says Sakakibara. "Creatures that adapt to their environment survive and flourish."

In a business context, adaptability is also key, and Sakakibara is quick to cite the story of a factory in Providence, R.I., as evidence of Toray's ability to evolve as circumstances require. "The plant used to produce polyester film for VTR magnetic tape, but when CDs and DVDs came along in the mid-1990s demand for video disappeared," he explains. "Suddenly the $400 million plant had no purpose." But Toray, uniquely, lost no time in discovering new and profitable applications for polyester film in digital photo substrates and metallized window films, thus turning a crisis into an opportunity.

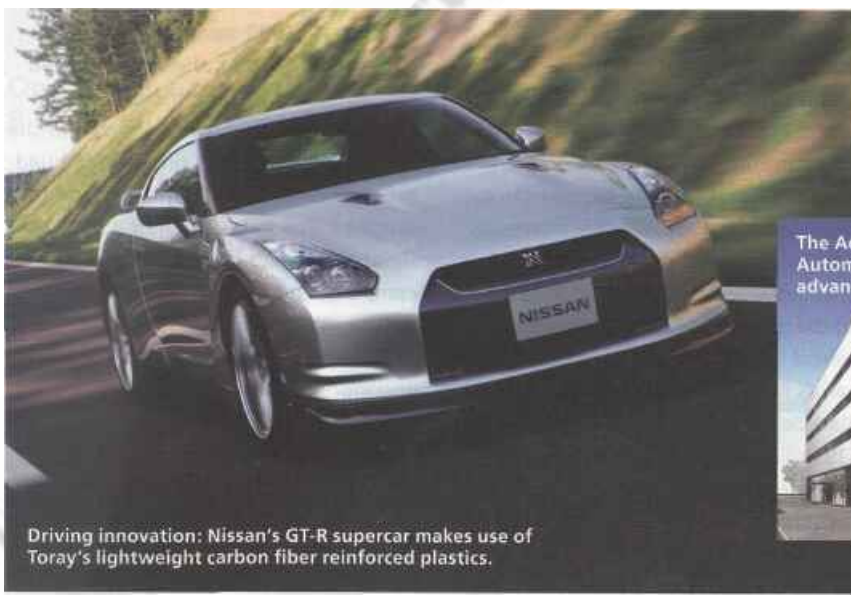
This pragmatic, forward-looking spirit is a major driver of Toray's robust financial performance, with the company recording operating income of $1.03 billion (103 billion yen) on net sales of $16.5 billion (1.65 trillion yen) in fiscal 2007, a sixth consecutive set of record results. Sakakibara's strategy has been to position the traditional "foundation businesses"—like fibers and textiles, plastics and chemicals—as a stable source of profit while moving in a big way into "strategically expanding businesses" like information and telecommunications, (IT)-related products and carbon fiber composite materials, and "strategically developing businesses" like water treatment and life science.

Financial data show this approach to be working spectacularly well. Last year, for example, carbon fiber composite materials accounted for only 5% of group turnover, but a whopping 17.5% of operating income, while IT-related products generated 29% of operating income from a comparatively modest 17% of sales.

Targeting Lucrative Fields

But surging oil prices, a slumping dollar, and a weak global economy make these challenging times, especially if—as is the case with Toray—many of the materials it produces are based on petroleum. The company, however, has successfully managed to absorb 80% of the negative impact of higher oil costs by raising prices and continuously upgrading to higher-value-added products.

At the same time, runaway oil prices have a definite upside for Toray. An example: The lightweight carbon fiber reinforced plastic (CFRP) it produces is looking ever more attractive to an airline industry eager for lighter



Driving innovation: Nissan's GT-R supercar makes use of Toray's lightweight carbon fiber reinforced plastics.


The Advanced Composite Center, part of Toray's new Automotive & Aircraft Center in Nagoya, will develop advanced composites for automobiles and aircraft.

planes with lower fuel consumption and operational costs. "A 787 Dreamliner with Toray's CFRP accounting for 50% of the total structure can save 20% on fuel, compared with the conventional aircraft of the same class. That is tremendous," explains Sakakibara.

The logic seems to have persuaded the big hitters in aviation. Toray has a 16-year contract to supply CFRP for Boeing's 787 Dreamliner, while the Airbus 380, the world's largest passenger airplane, also incorporates Toray's CFRP. Toray is already the No. 1 supplier to the aircraft industry, but Sakakibara is determined to make its dominant position unassailable by 2015. With over 10,000 commercial passenger aircraft in the world, the sky is quite literally the limit.

The automobile industry represents the next frontier for CFRP. Facing a similar combination of stringent regulation and higher fuel costs, carmakers have also started hunting for ways to lighten vehicle weight and improve fuel performance. At present, CFRP's high cost restricts its use to professional racing cars, super cars, and luxury cars. Sakakibara, however, is keen to break into the ordinary passenger car segment, a far larger market of 60 million new vehicles per year. In a drive to develop the cost-competitive materials and molding processes as well as the painting and repair technologies needed to make CFRP viable for commodity cars, Toray is now consolidating its R&D efforts into its new Automotive & Aircraft (A&A) Center in Nagoya.

The choice of location is no accident. Nagoya is already home to a Toray engineering plastics plant, while major carmakers like Toyota, Honda, and Mitsubishi Motors all have factories within a 30-mile drive, something that's sure to simplify the logistics of joint development. "Today our sales to the automobile industry are about $1.4 billion a year—chiefly engineering plastics and textiles for airbags, seat covers, and seatbelts, plus carbon fiber. We're hoping to expand that to $3.5 billion by 2015," announces an upbeat Sakakibara.

Sadayuki Sakakibara, president and CEO of Toray

Technology for Humankind

In fact, this model of getting close to the customer has worked for Toray before. The fact that its CFRP manufacturing plant in the United States is located adjacent to Boeing's main assembly plant in Seattle was a definite help to Toray in securing its current sole-supplier status. "With Boeing, it's like we're one virtual company," Sakakibara says. "Communication is that easy." Since the big three of Japan's aircraft industry—Mitsubishi, Kawasaki, and Fuji—are all located within a 20-mile radius, Toray's new A&A center is ideally situated not just to serve the needs of the car-making community, but of aircraft manufacturers, too.

Another thriving area where Toray is coming to grips with environmental challenges is water treatment, a business that currently accounts for about 5% of company sales and profits. Water shortages are a serious and growing problem in many parts of the world, but Toray's RO (reverse osmosis) membranes are busy converting seawater and wastewater into drinking water in thirsty regions like the Middle East, China, Southeast Asia, and North Africa. "Singapore doesn't have sufficient water resources to cover the country's daily water needs. Now one-tenth of the entire population there drinks water produced by our membranes," says Sakakibara, giving an idea of the scale of Toray's operations. "Worldwide, 55 million people are drinking 13.6 million cubic tons of water from Toray RO membranes every day. This is a technology essential to the survival of humankind."

This sort of wide-ranging commitment to environmental technology explains why Toray was selected in September 2007 as a component of the prestigious Dow Jones Sustainability Index (DJSI), which tracks the performance of the "leading sustainability-driven companies worldwide." Sakakibara is certainly passionate about the issue. "Environmental preservation is the most important corporate task," he declares.

"Becoming the top global advanced materials company" is Sakakibara's long-term vision for Toray, and he sees innovation—not just the technological innovation that comes from Toray combining its expertise in different branches of chemistry, but also innovative approaches to production, sales, and office work—as the strategy to achieve the goal. "Sure, there are many adverse factors right now," Sakakibara concludes, "but we've got a firm foundation and we're all on the same page. If we follow the course I set, we will survive—and evolve further—even in this difficult environment." •

Japan's Growth Quotient

Guardian of the Planet

Historically a leader in environmentally-friendly technology, Japan has ramped up research and development on ways to address climate change.

Think about Japanese technology, and you'll likely picture televisions, DVD players, and all manner of consumer electronics. But some ot the most exciting breakthroughs to come out of Japan promise to do more than boost our productivity by day and entertain us by night. They'll give us a cleaner, more sustainable environment to safeguard the future of our planet.

Perhaps it shouldn't be surprising that Japan would take a leadership role in tackling global warming, the troubling and potentially catastrophic increase in the temperature of the earth's air and oceans caused by large-scale emissions of carbon dioxide (CO_2). Japan, after all, was the host country in 2001 for the Kyoto Protocol, the landmark agreement that requires nations to reduce greenhouse gas emissions—including CO_2, nitrous oxide, and ozone—from 1990 levels. Japan's pledge under the treaty was to reduce its own emissions 6% by 2012.

But just as significant: More than any other environmental challenge, including natural, conservation and protection of the ecosystem, climate change makes for a natural fit for Japan. "As a country that basically owns very few natural resources, much of the people's interests is on saving energy," says Dr. Yasuko Kameyama, senior researcher at the National Institute for Environmental Studies in Japan. And better energy efficiency means fewer emissions.

Indeed, energy efficiency has become a focal point of Japanese environmental efforts—and its biggest success. "Japan is the second-largest investor, following the U.S., on research and development in energy-efficient technology and new types of energy such as fuel cells," says Kameyama. "Many Japanese products such as automobiles, air conditioners, and refrigerators use much less energy than similar products from other countries." Japan has been particularly successful cutting energy use in industrial processes, which, have seen a 13% reduction in CO_2 emissions (compared to 1990 levels), according to the Ministry of the Environment.

"Government subsidy for the research and development on energy has been quite huge," says Prof. Jusen Asuka, an environmental expert at Tohoku University. Key technologies, he notes, include "energy saving in steelmaking [and] water purification, and energy saving in general in the production process."

A Trailblazer in Technology

Japan's leading environmental technologies are well known. For years, it has churned out more solar, or photovoltaic (PV), cells than any other country. In 2006, the most recent year for which numbers are available, its PV production amounted to 926.9 megawatts, compared with 678.3 megawatts for all of Europe and 201.6 megawatts for the U.S., according to the Earth Policy Institute. Indeed, Japan is home to the world's largest manufacturer of PV cells, Sharp, and two other top-five producers, Kyocera and Sanyo. It was the first nation to introduce a mass-produced hybrid electric-gasoline vehicle, the Toyota Prius, which passed one million in total sales this year and, according to the United States Environmental Protection Agency, is the most fuel-efficient car sold in the U.S.

The innovations in the auto industry keep coming. Earlier this year, Nissan announced it would be adding an "Eco-Drive and You" feature to its onboard navigation system in Japan, letting drivers monitor their fuel-consumption habits and hear tips on how they can drive more efficiently. Meanwhile,

In search of alternatives (left to right): Japan is now the world's largest producer of solar cells; it is developing ethanol from wood waste and grasses.

Honda was named the "greenest automaker" by the Union of Concerned Scientists last year, for the fourth consecutive time. The biennial award is given to the automaker with the lowest overall production of emissions in its U.S. fleet.

Other areas of Japanese research underway have the potential of being just as important to the assault on climate change. Notable are the efforts in developing low-emission biofuels produced from non-food sources. The idea is to avoid the traditional feedstocks of corn and sugar cane, which can put a drain on the food supply, and rely on substances like wood, grasses, and the nonedible parts of plants. It is an important consideration for a country that is the world's biggest importer of farm produce. This isn't theoretical stuff, either. Already, in Osaka Prefecture, the world's first commercial-scale plant to produce ethanol from wood construction waste—built by a consortium of five Japanese companies that were subsidized by the Ministry of the Environment—is up and running. By year-end, it is expected to churn out 4 million liters of non-food, or cellulosic ethanol annually. The plant will supply automobile fuel for certification tests by the Japanese government, which wants to replace 10% of the gasoline the country now consumes (about 1.6 billion gallons) with biofuel.

> Japan has announced a $10 billion fund called the Cool Earth Partnership to help developing nations achieve both emissions reductions and economic growth.

Transferring Know-how Abroad

Meanwhile, at the Research Institute of Innovation Technology for the Earth in Nagaoka City, work is underway in carbon capture and storage, in which the carbon dioxide emitted by a large source, like a power plant, is isolated and trapped deep within the earth or underwater so it can't enter the atmosphere. Subsidized by the Ministry of Economy, Trade, and Industry (METI), the project has injected some 10,000 tons of carbon dioxide into an aquifer 1,100 meters deep. Researchers are now studying post-injection conditions to verify the feasibility of this technique.

More is to come. In January, at the World Economic Forum in Davos, Switzerland, Japan's Prime Minister, Yasuo Fukuda, announced that over the next five years, Japan will invest about $30 billion in research in the environment and energy sectors. Areas of focus, he said, will include the development of zero-COz-emission coal-fired power plants, high-efficiency solar-power technology that can be mounted on rooftops, and green IT. If Japan's Cool Earth 50—a proposal last year to halve global greenhouse gas emissions by 2050—is to be achieved, said Fukuda, "it will be absolutely critical that there be breakthroughs in technological innovation."

Yet creating the technology is just the first step. It's vital, too, to get the breakthroughs out to countries that are looking for solutions. During a May visit to Japan, Chinese President Hu Jintao remarked that he wanted to bring Japan's advanced recycling technology to his nation, which has seen a marked increase in pollution. Japan has also announced a $10 billion fund called the Cool Earth Partnership to help developing nations achieve both emissions reductions and economic growth.

But it's not just financially strapped nations that Fukuda wants to reach out to. "If the level of efficiency in Japan's power plants is achieved in the U.S., India, and China, the resulting CO_2 emission reduction would amount to some 1.3 billion tons—the equivalent of Japan's annual total emissions," he said at Davos. In the end, Japan's most important contribution on climate change may be its example. •

Japan's Growth Quotient

The Heat Is On

Takejiro Sueyoshi, a member of the Prime Minister's consultative committee on climate change, talks about Japan's plans to fight global warming.

If Japan is to successfully tackle climate change, it's going to need a multipronged approach involving both the public and private sector. To find out what plans are on the drawing board, we spoke to Takejiro Sueyoshi, special advisor to the United Nations Environment Programme (UNEP) Finance Initiative, advisor to the mayors of Kagoshima and Kawasaki, and a member of Prime Minister Fukuda's consultative committee on climate change strategy.

What is Japan's financial community doing to help tackle climate change?

In recent years, many Japanese financial institutions have been supporting environmental-related businesses by investing in socially responsible investment (SRI) funds. The first SRI fund in Japan, the Nikko Eco-fund, was launched in 1999. Today there are 50 SRI funds that have $8 billion of assets under management. Of these, 12 invest in environmental and global warming-related projects, totaling $4 billion. Recently "theme funds" that invest in global warming technology companies have become popular and are selling well.

We're also seeing many Japanese banks committing themselves to sustainable financing. Some are selling new financial products that apply lower interest rates to consumer loans. The idea is that a reduction of interest can be an incentive to buy energy-efficient products and eco-cars, along with environmentally efficient apartment houses. In addition, many banks are extending loans to wind-power projects as part of their CSR-related activities.

Have any of these initiatives been particularly successful?

The most successful business case was the launch of the Eco-fund by Nikko in 1999. Within six months, its sales reached $1.4 billion. Young people, women, and new investors made it happen. The fund opened the first page in the history of environmentally-friendly financial products in Japan. Before its launch, nobody expected that this product would sell in such a successful way. It was a happy miscalculation.

How do Japan's efforts stack **up against other** nations?

While our initiatives mark a big change from just a few years ago, I think that Japanese financial institutions are still at an initial stage. Although there are a lot of new products sold on the market, the total volume of environmentally friendly business is very small compared to the financial market as a whole. I think there is a long way to go before our financial - institutions catch up to their peers in the E.U. and the U.S.

What exactly are Japanese cities doing to tackle climate change?

Some prefectures and cities in Japan are planning to declare their goals to become carbon-neutral local communities. The Tokyo Metropolitan Government is a front-runner in introducing a cap-and-trade scheme. They will allocate caps of greenhouse gas emissions on 1,300 buildings.

The central government in Japan is now working on the selection of ten local communities to serve as models of sustainability. These will be backed financially in order to become low-carbon areas.

How can Japan do better?

Japan could be a leading country in sustainable financing. It is No. 2 in the world in terms of GDP. Its financial market is very big. But we need a government strategy that pushes Japan's financial institutions into environmentally friendly business. More importantly, banks need to establish their own vision if they are to become leaders in sustainable-financing.

But what Japan needs most is political will. It needs political assurance from the government that the basic policies on climate change won't change often, but will stay in place, for the long term. •

A World of Opportunity

Asahi Kasei is focusing on its strengths, aggressively developing businesses where it is a global leader.

"Our strategy of focusing on value-addedproducts with high profitability has proved its worth. Despite the rise in the price of oil, we've managed to achieve our revenue targets ahead of schedule," says Shiro Hiruta, President and CEO of diversified chemical manufacturer Asahi Kasei, which reported operating profits of $1.28 billion (128 billion yen) on net sales of $17 billion (1.7 trillion yen) for the fiscal year ended March 31, 2008.

The secret behind this standout performance is *Growth Action - 2010,* the mid-term business plan Hiruta created to reshape the company's business portfolio into a growth machine. Positioning the more mature and domestic-focused businesses as a stable source of earnings, Hiruta has been investing aggressively in high-growth global sectors like specialty chemicals, electronic materials, and medical devices. "In the mid-1990s, global businesses accounted for only 40% of our sales," says Hiruta. "That figure is now 60%."

A neat example of the fast-growing global business Hiruta favors: the separators that divide the anode and cathode in the rechargeable lithium-ion batteries that power PCs, cellphones, and digital cameras. Asahi Kasei enjoys a world-leading 50% market share for these key components, but Hiruta still wants more. "We're increasing production capacity this year and next," he says. "So we're ready to drive our market share even higher."

Compact and lightweight, lithium-ion batteries are expected to soon replace the nickel-hydride batteries that power the current generation of environmentally friendly hybrid cars. Hiruta is confident that Asahi Kasei has the technological expertise to guarantee that its separators will secure an equally large share of this potentially vast market as well.

Water treatment is another area of environmental technology where Asahi Kasei is a strong performer. Already the No. 1 supplier of membrane filters for municipal water treatment in the U.S., the company has recently turned its attention to China. "There's been a major deterioration in water quality," explains Hiruta. "It's driven up the price of publicly supplied water. Our filtration technology means we can supply recycled wastewater at a lower price."

This April Asahi Kasei announced plans to construct a plant in Suzhou, China, that will supply high-quality industrial process water to Sony Chemicals, a subsidiary of the famous electronics company. "We're going to develop this build-own-operate (BOO) business model one industrial sector at a time, steadily building a track record to attract new clients," Hiruta explains.

Water treatment is not the only business where Asahi Kasei's superior technology offers cost advantages. The company recently devised a more efficient—and thus cheaper—way to manufacture acrylonitrile (AN), the raw material for the acrylic fiber used in blankets and sweaters, and for the ABS resin used in household appliances like TVs. Together with a local partner, it is investing in a new AN plant in Rayong, Thailand, due to come on stream in late 2010. The plant should help propel Asahi Kasei from second to first place in global market share of this key material.

Shiro Hiruta, President and CEO of Asahi Kasei

Although it now earns about 45% of its operating profits from businesses like these, where it holds a dominant position in the global marketplace, Asahi Kasei still looks for lucrative new niche opportunities. For example, the company—a world leader in hollow-fiber devices like artificial kidneys and virus removal filters—is examining ways to expand into new medical treatment systems.

Growth through diversification is a strategy Asahi Kasei has been following since the 1920s, and it's this can-do spirit that explains Hiruta's positive outlook amid the present economic upheavals. "I believe we can boost our profits by $200 million to $300 million over the next few years," he declares. "We're on target to earn $1.5 billion by 2010."*

A Shared Vision

Olympus Corp. is best known for its world-class cameras, yet its scientific and medical businesses have long been the core of the company's growth.

Japan is the world's second-largest economy, and a technology leader in many industries, but at the start of the 20th century it was far from the powerhouse it is today. Particularly in the fields of medicine and science, more often than not the best equipment and tools were produced overseas and, as such, were prohibitively expensive to many Japanese who could have benefited from them.

Luckily, a young attorney and businessman, Takeshi Yamashita, had the vision to produce high-quality microscopes domestically that were far more affordable than expensive imports. Yamashita shared his dream with an acquaintance, Shintaro Terada, who had already designed his own award-winning microscope. Terada soon joined Yamashita's company, Takachiho Seisakusho, established on Oct. 12, 1919. The following year, the firm introduced its first mass-produced microscope, the Asahi, which was a tremendous success. In 1949 the company became Olympus Optical Co. Ltd. In 2003 it was renamed Olympus Corp., which today continues its long tradition of innovation.

Medical History

At the turn of the 20th century, the medical equipment situation in America was not much different than that of Japan in many areas. Urologists could only buy cystoscopes—the instruments used to look inside the bladder and urethra—from Germany and Austria. Communication difficulties, long waiting times, and high costs of repairs prompted German immigrant Reinhold Wappler to establish American Cystoscope Makers Inc. (ACMI) in 1908. A skilled maker of medical and electrosurgical devices, Wappler developed many diagnostic and therapeutic instruments, and for decades ACMI was the premier source of urological equipment in the United States. In 1960 ACMI developed the world's first flexible endoscope, using glass fibers instead of rigid rod lenses.

More recently, in 1989, two brothers from Wales took the first steps in pursuit of their own dreams that would eventually merge with those of Yamashita and Wappler. Mark and Colin Goble launched a company to develop plasma-based surgical tools that would minimize patient trauma in a variety of procedures, such as prostate surgery and hysterectomies. The company, Gyrus, was publicly listed in 1997.

In 2005 Gyrus acquired ACMI, instantly doubling the group's value and significantly strengthening its position in the U.S. market for urological and gynecological surgical tools. Gyrus ACMI grew sales in the U.S. that eventually accounted for more than 80% of its parent company's global revenues. "They were our competitors," saysTsuyoshi Kikukawa, president of Olympus Corp. "And in the Americas, they were winning."

Last November Olympus announced it was starting procedures to acquire Gyrus Group PLC, which included Gyrus ACMI. The contract was finalized on Feb. 1, 2008, and Olympus paid $2 billion (210 billion yen) in cash. It was the largest acquisition in Olympus' history—almost four times its previous most costly purchase—but a price that Kikukawa believes was reasonable.

"I can confidently say that with Olympus' endoscope products and Gyrus' surgical products, we are now positioned to compete against all the major surgical companies," declares Kikukawa. "Our leadership in endoscopy puts us in an even stronger position for the future as new diagnostic and surgical procedures will utilize the devices that only Olympus can now offer." This sentiment was echoed by Olympus' institutional investors, some of whom said they would have loaned "as much as was needed" to

An early ACMI cystoscope


Olympus Corp. President Tsuyoshi Kikukawa

make the deal, says Kikukawa. An evaluation of Olympus published by Nomura Securities on April 10, 2008 pointed out the "large synergies" the company will gain with Gyrus ACMI.

A Stronger Supplier

In terms of market share, Olympus is a leader in the market for instruments used in surgery of digestive organs, whereas Gyrus ACMI's strengths lie in urology, gynecology, and ENT (ears, nose and throat). Olympus already has about 70% of the gastroenterological endoscope market, but the acquisition has expanded its share of the combined markets for urology endoscopes in Japan, the Americas, and Europe to about 50%. And for the ENT endoscope business in the same markets, the combined share now totals 30%.

"As the global market leader in urological endoscope diagnosis and treatment, Olympus' social responsibility becomes greater than ever, and as such we hope to make even more of a contribution—both for patients and medical personnel," explains Haruhito Morishima, president and CEO of Olympus Medical Systems Corp. "Development of endoscopes for infants and children, fields where both cases and specialists are few in number, is just one example of this."

Kikukawa believes there are also great synergies to be leveraged in terms of corporate culture. "Olympus has always valued its pioneer spirit—we create technologies, then spend years developing and refining them," says Kikukawa. "Gyrus has grown quickly by acquiring technologies through multiple mergers and acquisitions. They have a proven track record of successfully integrating different corporate cultures while keeping employees happy, and Olympus can learn from this experience."

At the heart of Olympus' management philosophy is a concept known as "Social IN"—contributing to society by being part of society. A good example of this ethic in action is the Visionary Volunteers program that Olympus launched in the U.S. last year. Nearly 250 employees volunteered 4,655 hours of their personal time to local community service in 2007.

The Clear Picture

Just as Olympus' medical business contributes to a healthy society, the mission of its imaging business is to contribute to people's happiness. While Olympus enjoys a top share of the compact digital camera business in many world markets, that is not the case in the digital SLR camera market. But Kikukawa is by no means conceding defeat. "We will catch up," he declares. "I won't give any time frame, but under the radar we are hard at work developing and acquiring technologies that are nothing less than revolutionary, while building a brand that will firmly establish us as part of the top three."

For the fiscal year that ended in March 2008, Olympus Corp. earned a record $1.07 billion (112.6 billion yen) on $10.8 billion (1,128.9 billion yen) in sales, marking its 14th straight year of growth. The strong yen undercut export revenues, but helped in terms of cheaper overseas manufacturing costs. Based on the exchange rates at the end of March, Olympus forecasts sales for the current year to climb 7.4% to $11.5 billion (1,212 billion yen), generating $1.04 billion (109 billion yen) in income.

Apart from financial goals, one of Kikukawa's objectives for this year is to identify a new core business from among the myriad candidates the company is currently incubating. The aim is to both increase Olympus' overall growth and to reduce over-reliance on its existing core businesses. Also this year, the company's five-year corporate strategic plan (CSP) is due for review and readjustment. Kikukawa wants to take the opportunity to look a little further ahead and imagine what kind of company Olympus should be when it reaches its 100th birthday in 2019.

"We have to imagine what society will want and need a decade from now—what consumers and employees will expect from companies," he explains. "As for the environment, we have to think beyond the individual corporation and think at the industry level and at the national governmental level, because that's the only way to really make a difference." Call him a dreamer if you will, but he is in very good company.

"I can confidently say that with Olympus' endoscope products and Gyrus' surgical products, we are now positioned to compete against all the major surgical companies," declares Kikukawa.

FUKUDA, Yasuo. Japan' s growth Quotient, **Fortune**, Amsterdan, v. 158, n. 3, p. S1-S31, September. 2008.