



Kao Corporation¹

Background

The Kao Corporation is Japan's largest soap and cosmetic company. They have developed from being a minor player to being number two in the Japanese market in less than ten years and are the sixth largest soap and cosmetic company in the world.

Innovation Claim to Fame

Kao was founded in 1890 as the Kao Soap Company with the motto, 'Cleanliness is the foundation of a prosperous society'. In the 1940s Kao launched the first Japanese laundry detergent, and in the 1950s the company launched dishwashing and household detergents. In the 1970s and 80s the company grew more rapidly than ever, based on innovative products and new businesses. For example, they diversified into cosmetics, hygiene and floppy disks. By 1991 sales were \$4.7 billion and the company made 564 household products; by 2000 these figures were around ¥100bn across 650 products.

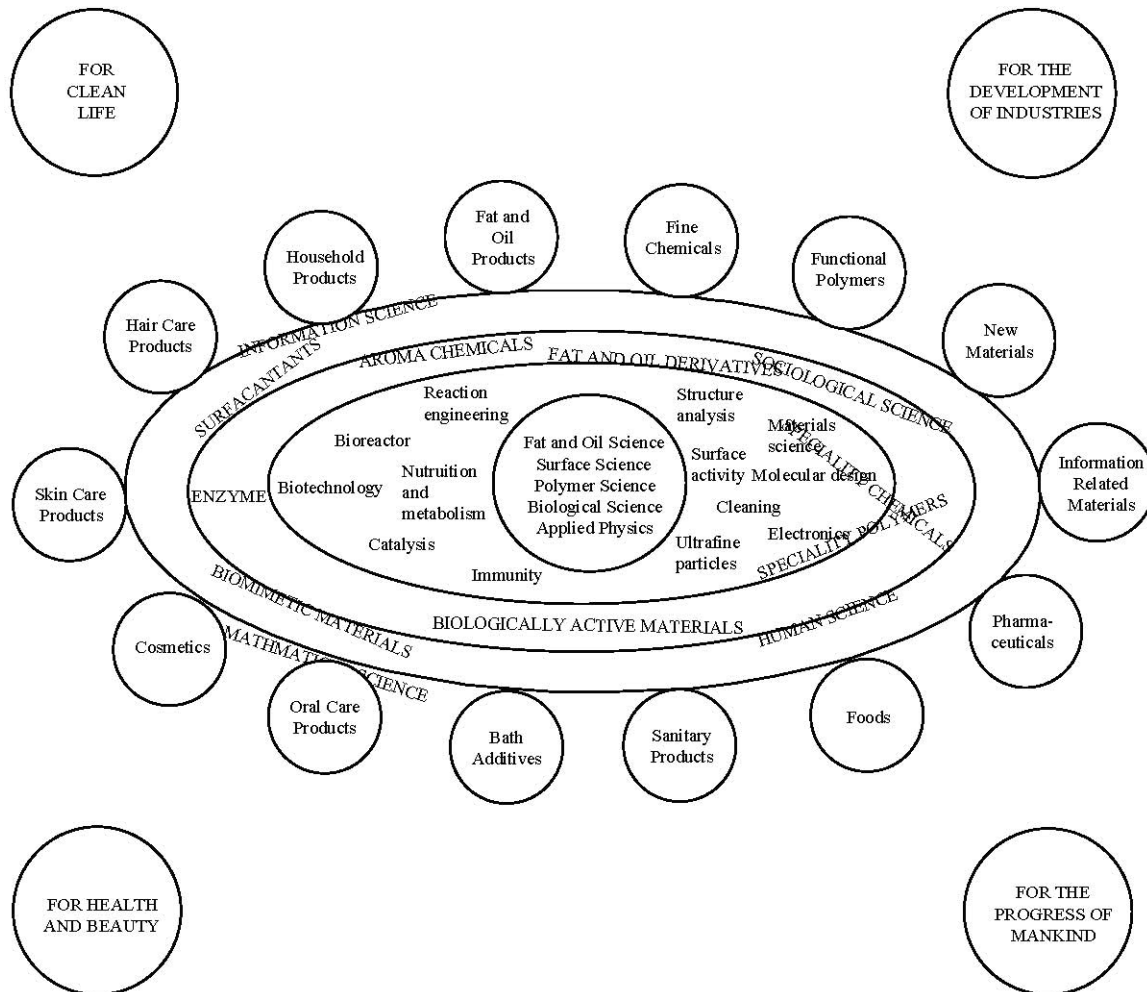
How They Manage Innovation

Kao combine the strengths of a disciplined and formalized product development system with the cultural values of learning and continuous improvement to ensure that steady-state innovation succeeds on a continuing basis. At the same time their commitment to R&D and to developing and exploiting strong technological competencies provides a rich pool in which to fish for new development possibilities. Targeting where to move next in volatile consumer markets is helped by rich and extensive information systems which connect the market rapidly with the R&D and manufacturing heart of the business.

Innovation Strategy and Leadership

Innovation is a core value of the business but is generally expressed in terms of learning (see later) – the sense is that Kao needs to be continuously learning about technologies, users, key trends in society, etc. and then to be able to combine these signals into new combinations of products and processes. It sees itself as a knowledge-based company and takes its competencies seriously. It has mapped them; a simplified version of the Kao Competencies map (1996) is shown on the following page.

¹ Case contributed by Dr. David Francis of CENTRIM at the University of Brighton. It is based on interviews and secondary materials.



Enabling the Process...

New Product Development (NPD) at Kao is guided by four principles:

1. Every product must be useful to society.
2. Products must use innovative technology.
3. Products must offer customers value.
4. We must study consumers needs and reactions to our products.

At every stage in the product development process ideas are developed, criticized, discuss, refined or altered in the light of any new information or new learning. The conscious aim to 'pour in' all relevant technologies so that a genuine advance can be made in the product offered.

The company has identified five fundamental sciences from which it derives its products. These sciences are:

- Fat and Oil Science
- Surface Science
- Polymer Science



- Biological Science
- Applied Physics

From these fundamental sciences the company has developed products in a wide range of application domains.

The company funds corporate research centrally (based on the five fundamental sciences); the company view is that 'original technology, developed through basic research, forms the foundation of Kao's 'future'.

Products are developed by Product Development Groups. As a product moves from the idea stage to test marketing so different groups become involved – but, since the company has an open communication system, all those involved know what is happening. There are formal NPD review meetings built into the system but much of the development work is conducted in informal meetings.

Kao test the potential market for their new products by sending out 'intelligence collectors' to assess pricing, positioning, the competition and, above all, the customers. Groups of customers are asked to discuss their views about the product and this information provides very detailed market research. For example, it was through these 'focus groups' that Kao learnt that the way for them to sell a new cosmetic (Sofina by influencing the store manager's wife who, they discovered, had the real influence in deciding what cosmetics the store should stock

Decisions are taken quickly. For example, whilst test marketing Sofina the decision to improve the design of the sample package was taken at 3:30pm and an engineer started redesigning the shape of the bottle on the same day at 6.30pm.

Once a product is launched Kao form a 'free, two-way flow of information with customers'. This means that the product, pricing, packaging, marketing, sales methods and many other factors could be constantly monitored and improved. For example, company set up a help-line to advise women who bought the Sofina products – from a careful analysis of calls it proved possible to improve many aspects of the product. Although the company has many technical competencies, they have also developed skills in computerized social science research which enables the company to see patterns in the 40 000 enquiries that it receives each year; ideas for product improvement flow from the analysis.

One computer system links everything – sales, shipping, production, purchasing, accounting, R&D, POS tills, thousands of salesmens' handheld computers, etc. The information system is so complete that the annual accounts can be produced by lunch the day after year-end.

Many of the 300 000 retail outlets stocking Kao products have computer links with Kao (through their POS tills) and can receive orders within 24 hours (an average order of seven items). The owner of one store said, 'A Kao salesperson comes to see us two or three times a week, and we chat about many topics. To me he is both a good friend and good consultant.' Masayuki Abe, Kao's systems development manager, said, 'The purpose is to maximize the flexibility of the whole company's response to demand'.

Kao's Marketing Intelligence System (MIS) tracks sales by product, region and market segment, and provides raw market research data. All the information is sifted to provide clues about customer needs and then linked to R&D to provide 'seeds' to create new



products. Brand managers see daily figures on sales, stock and production. Within a day they can learn of a competitor's sale or change of policy and react accordingly.

Building an Innovative Organization

Kao is committed to the principles of 'equality, individual initiative and the rejection of authoritarianism'. Work is viewed as 'something fluid and flexible' and the organization is designed to run as a 'flowing system' to stimulate the spread of ideas in every direction and at every level.

Kao has a flat organizational structure that Dr Maruta likened to a paperweight. He said:

"In the pyramid (which many Western organizations use for their structure) only the person at the top has all the information. The Kao Corporation is like the paperweight on my desk. It is flat. There is a small handle in the middle, just as we have a few senior people. But all of the information is shared horizontally, not vertically. Only then can you have equality. This is the basis for trust and commitment."

The Kao organization practiced 'biological self-control.' As the body reacts to pain, the Kao Corporation sensed if there was a problem and sent help. 'If anything goes wrong in one department, the other departments should know automatically and help without being asked.' For example, a Kao factory making a cream product was only achieving 50% of the production of Nivea Cream. Workers at the factory voluntarily formed a small team with the people in charge of production, quality, electricity, process and machinery. Within a year production had been raised to 95% of target.

All Kao employees were seen as 'priests' whose task was to learn and practice the truth – this meant that it was considered wrong to defend a personal interest. The 'truth' was sought through discussion, testing ideas and investigating until something was learned. Every employee was expected to be a coach – both to themselves and to everyone else, whether above or below them in the organization

Information was regarded as living and valuable – to be shared and exploited to the utmost. Dr Maruta had said, 'In today's business world, information is the only source of competitive advantage'. He went on to say that 'Every piece of information from the environment is a potential key to a new positioning for the product or, indeed, a new product. All managers are expected to ask themselves at all times the question "how can we use this piece of information?"'

In Kao the 'classified' stamp does not exist. The computer system gives all employees equal access to information. The principle used was explained like this: 'It is necessary to share all information. If someone has special and crucial information that the others don't have that is against human equality and will deprive us and the organization of real creativity'. Terminals installed throughout the company ensured that any employee could retrieve data on any subject – for example, any sales record or the latest findings from Kao's research laboratories.



Linkages and Networking

Top management 'emphasize that 80% of its own time must be spent on communication and the remaining 20% on decision making'. The task of all Kao managers is to take information directly from the competitive environment, process the information and transform it into knowledge. This enables the company to keep up with the many factors which can affect business; the emphasis is on 'what will be useful tomorrow?'

The slogan of R&D is 'learning through cooperation' and the emphasis is on information exchange – both within and without the department. Research results are communicated to everyone for whom the work has possible relevance. Researchers themselves (not their managers) make frequent presentations and weekly 'open space' meetings are held on current research projects that can be attended by anyone in the corporation.

At Kao no-one owns an idea as ideas are shared to enhance their value. The principle adopted is *tataki-dai* (present your ideas to others at 80% completion so that criticized or added to before they become a proposal). This gives *zo-awase* (a commonperspective).

The cross-fertilization of ideas is encouraged by the physical layout of the Kao building. On each floor (including the President's) there is a large amount of open space with flip charts and overhead projectors readily available. This is know as 'Decision Space'. There are tables and chairs for formal and informal meetings, in which all contribute as equals.

Learning and Capability Development

This is a company where learning is perhaps the core cultural value. A flavour of the approach can be gained from comments made in an interview with one of the Presidents, Dr Yoshio Maruta, who introduced himself as a Buddhist scholar first and the president of the company second. The philosophy of Kao was that it was a company that not only learned, but 'learned how to learn'. In Dr Maruta's words the company was 'an educational institutional in which everyone is a potential teacher'. Dr Maruta believed in creativity at every level of the business and said, 'We are determined to explore and develop our own fields of activity'.

Kao develops a stream of new products ahead of its competitors. The director of the overseas planning department said in the early 1990s that the company's success was 'due not merely to its mastery of technologies nor its efficient marketing and information systems, but to its ability to learn'.