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<ANQ Congress Tokyo 2009>

# Quality-Oriented Management in Komatsu Ltd.

September 16  
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Chairman of the Board  
Komatsu Ltd.

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## Contents

1. Outline of Komatsu
2. World economy
3. Komatsu's Reform of Business Structure  
~Reinforce strong points and Reform weak points~
4. Komatsu's Quality-Oriented Management
5. Corporate Value & Brand Management
6. Tasks of Komatsu
7. Summary

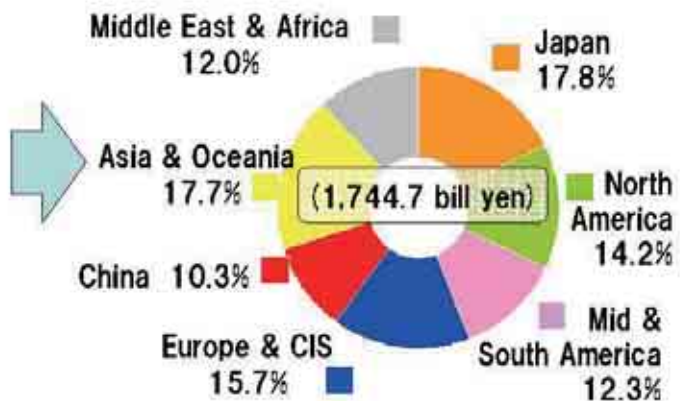
# 1.Outline of Komatsu

## KOMATSU Outline of Komatsu (As of March 31, 2009) 4

- Established: May 13, 1921
- Net Sales: 2,021.7 billion yen
- Operating Profit: 151.9 billion yen
- Total Assets: 1,969.0 billion yen
- Sales by Business Segment
- Komatsu Group: 164 Companies
  - Japan: 49
  - Overseas: 115
- Number of Employees :39,855

Sales of Construction & Mining Equipment by Region

Industrial Machinery & Others  
(277.0 bil yen)



## KOMATSU Main Products: Construction & Mining Equipment

5



## KOMATSU Main Products: Industrial Machinery and Forklift trucks

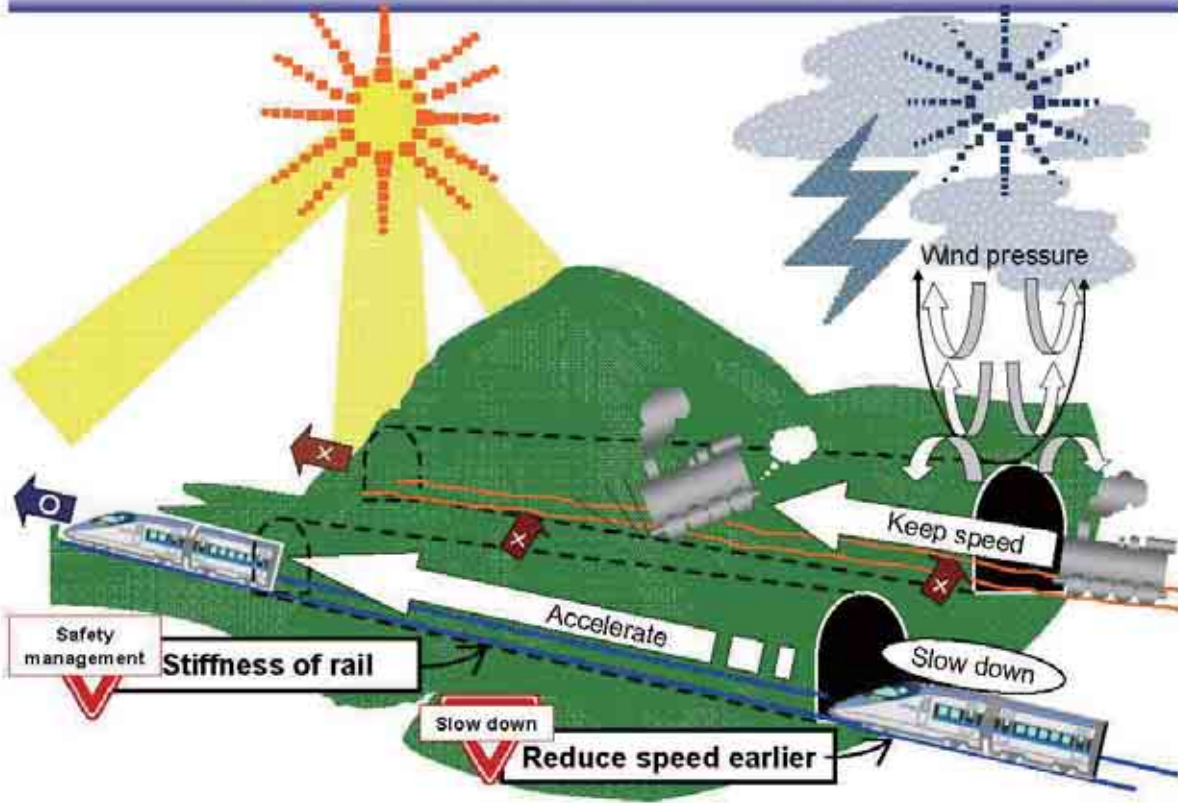
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## 2. World Economy

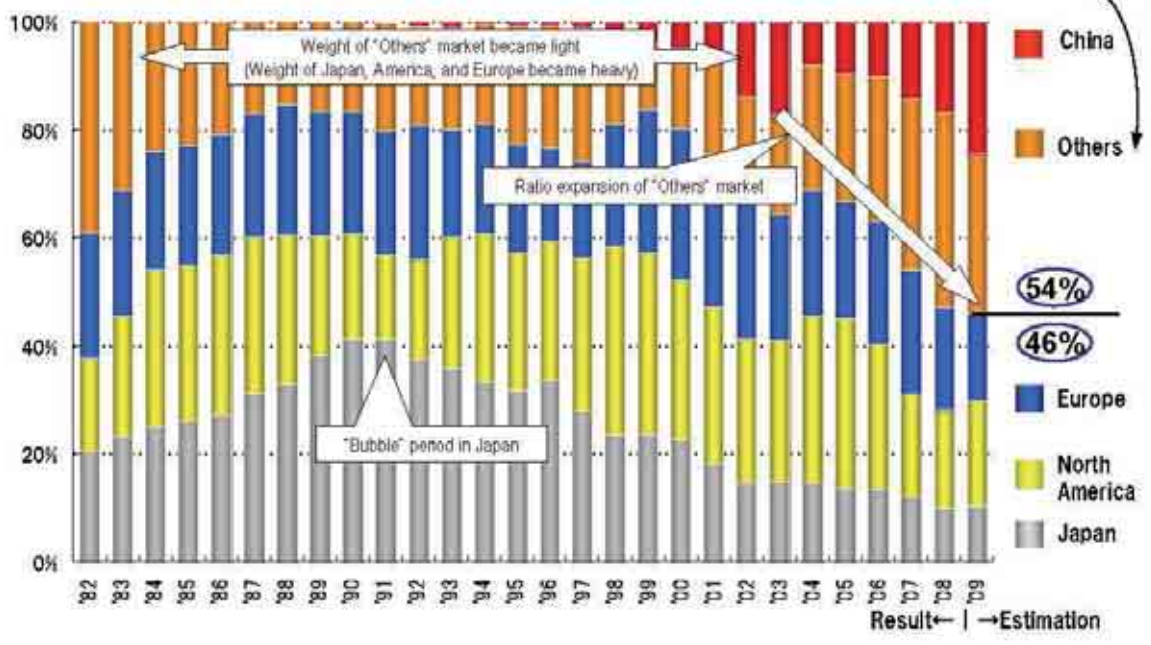
**KOMATSU** Every tunnel has an exit! Zoom through the tunnel!! 9

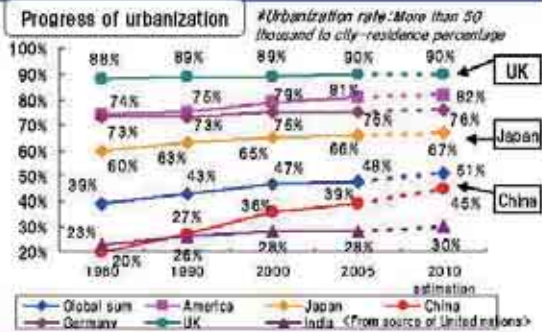
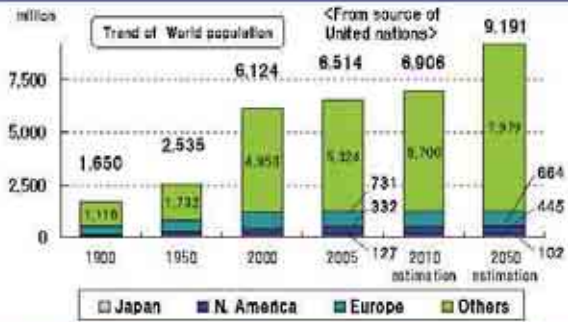


**KOMATSU** Rate of Demand for Construction and Mining Equipment in regions 10

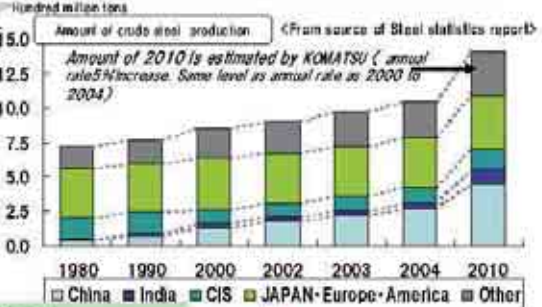
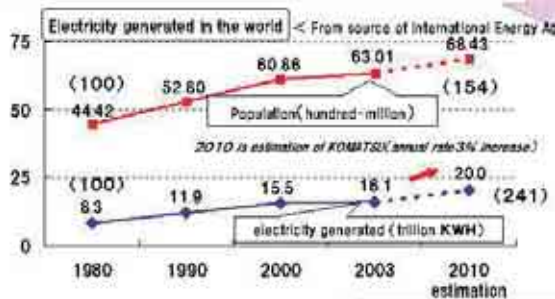
Rate of "Others" is increasing (About 54% estimated in FY2009)

Asia, Oceania, CIS, Middle East, Africa & Latin America





Population increase & Urbanization ⇒ Increase of infrastructure improvement, Expansion of energy consumption



Understanding (1)

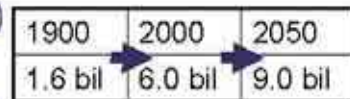
- Economic growth in Japan, America and Europe expanded to the limit

Investment to Asia & BRICs

Era of "Grater Asia"

Understanding (2)

- Population Increase
- Growth and Urbanization in Asia with large population
- Increase of people desiring urban life style



[Global common tasks]

Resource, Energy, Food, Water, and Environment

Understanding (3)

- How was the Japanese "Mono-dzukuri" competitiveness in comparison with other countries?
  - Manufacturing cost was competitive enough
  - However, capacity cost was too much (Consolidated management, inefficiency of indirect sections)

Global management with Japanese strength  
 (1) Innovation of Corporate governance  
 (2) Sharing values (The KOMATSU Way, TQM, and Brand Management)

Challenge to develop "Dantotsu products" with key words: Environment, Safety, and IT

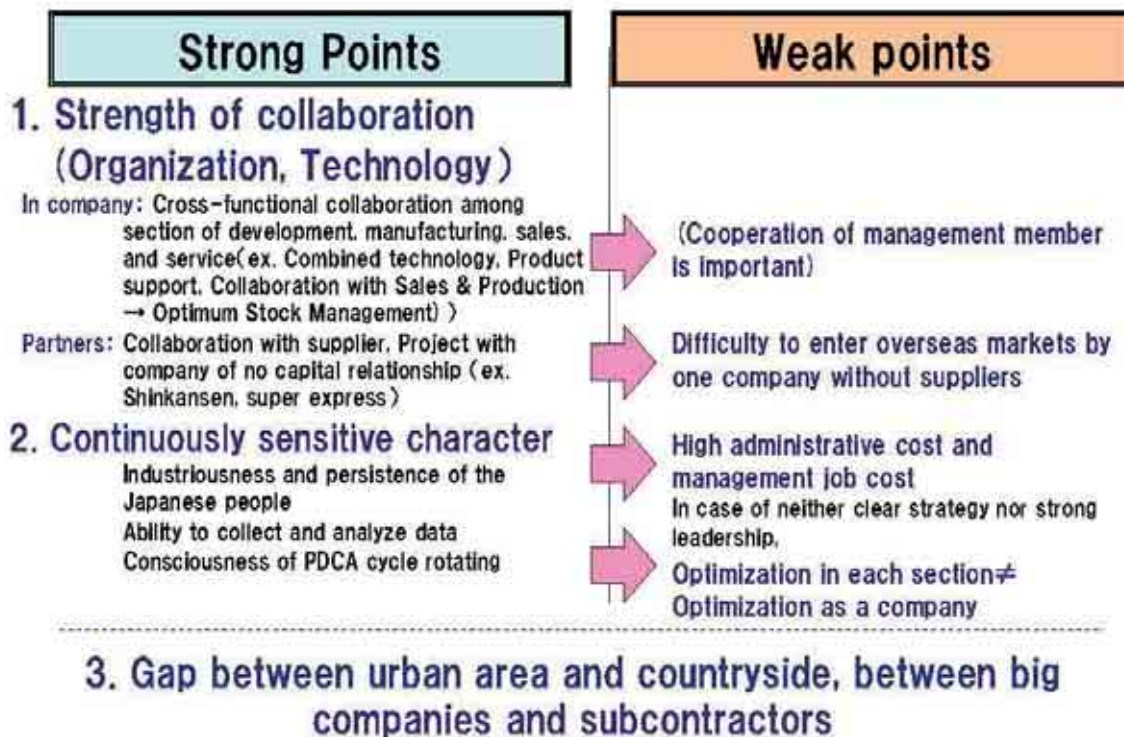
Making capacity cost more efficient

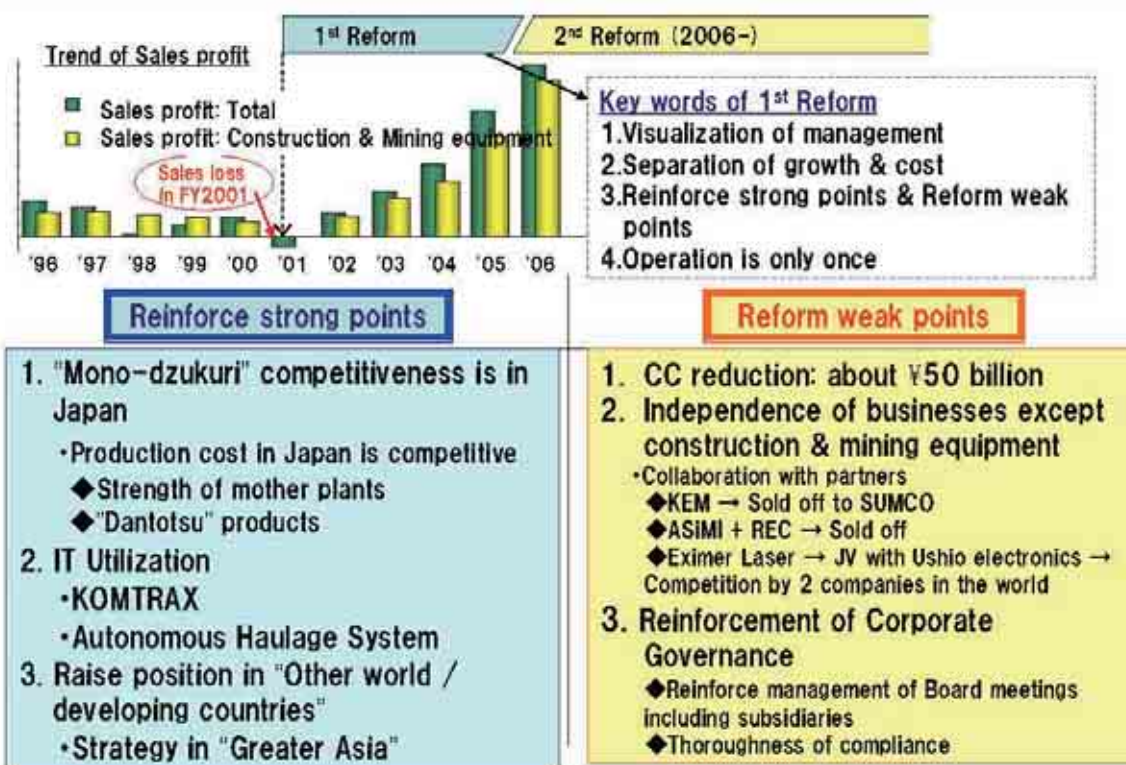
Differences between 2001 and current (2009)

- Asia and BRICs grew more than expected
- Too much money caused "housing bubbles" in Europe and America, and caused "lehman shock"
- Exchange rate was 105-125 yen to the US dollar in the past. Currently, it is higher.

## 5. Komatsu's Reform of Business Structure ~Reinforce strong points and Reform weak points~

### KOMATSU Strong points and Weak points of Japanese Companies 14





## Common themes for Japanese companies developing globally

### 1. Top Managements' Familiarity with Workplace

- "Facts Finding", Top management declare the policy to every workplace.

### 2. Policy Deployment

- **Top-down approach** is necessary for it
- **"Middle up & Middle down"** approaches are indispensable for continuous improvement

### 3. Collaboration with Business Partners

- Collaboration with in-company sections, Dealers, Suppliers

### 4. Human Resource Development

- Domestic HR Development to Global HR Development



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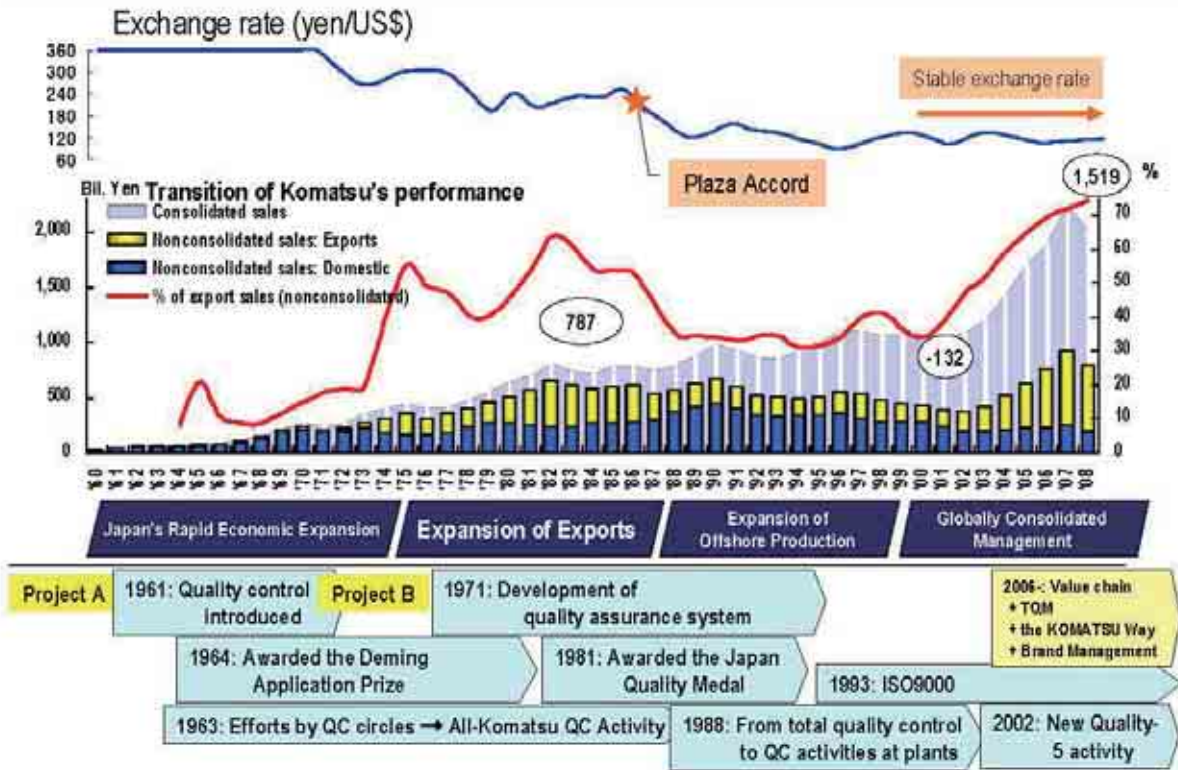
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## 4. Komatsu's Quality-Oriented Management



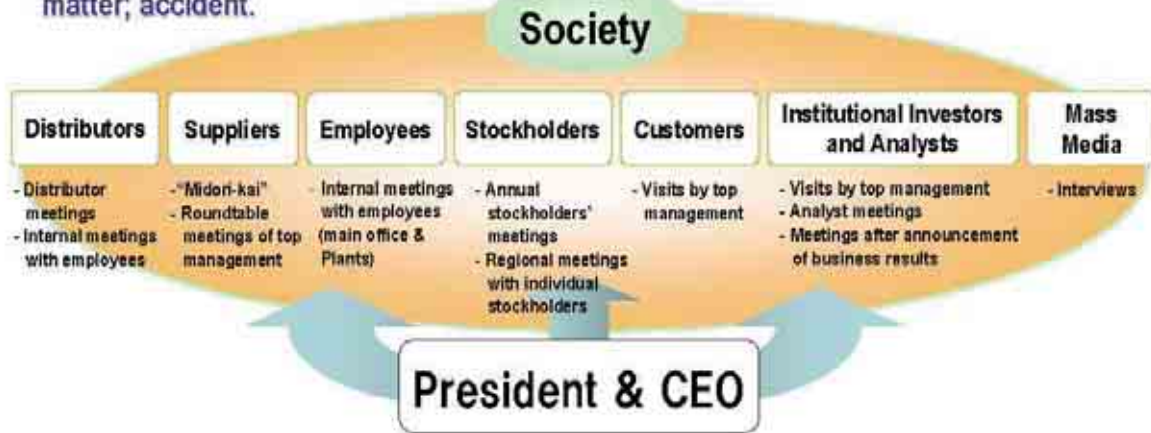
## 5. Corporate Value & Brand Management

**Target : Improvement of Corporate Value**

Corporate value = The total sum of trust given to us by society and all stakeholders

That is, **"To raise feelings that 'we are inconvenient without Komatsu.'"**

Trust is given by disclosing information properly by top management him/herself, take accountability, visualizing corporate management, and getting rid of surprise matter; accident.



Society & Stakeholders	Evaluation	Degree of direct participation	Index	Detailed valuable action (The KOMATSU Way)
Society	A	C	<ul style="list-style-type: none"> <li>•Creation of employment</li> <li>•Information disclosure</li> <li>•Payment of tax</li> <li>•CSR</li> </ul>	<ul style="list-style-type: none"> <li>•Strengthen corporate governance</li> <li>•Environmental &amp; Social Report</li> <li>•Strengthen "Mono-dzukuri" competitiveness</li> <li>•Development of "Dantotsu" products, CO<sub>2</sub> Reduction, Enhancement of fuel consumption, Contribution to desiring</li> </ul>
Customers	A	B	<ul style="list-style-type: none"> <li>•Customer satisfaction</li> <li>•Brand management</li> </ul>	<ul style="list-style-type: none"> <li>•Customer Oriented: Visit of top management, Customer satisfaction research</li> <li>•Collaboration with business partners: Creation of good relationship with customers</li> </ul>
Stockholders	A	C	<ul style="list-style-type: none"> <li>•Sales result</li> <li>•Stock price</li> <li>•Dividend</li> <li>•Information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>•Strengthen corporate governance</li> <li>•Stockholders' meeting, discussion meeting</li> <li>•Development of "Dantotsu" products, Plant tour</li> </ul>
Financial institutions	A	C	<ul style="list-style-type: none"> <li>•Grading</li> <li>•Information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>•Meeting for analysts and investors to explain, Timely Information disclosure</li> </ul>
Personnel (Directors, Employees)	C	"A"	<ul style="list-style-type: none"> <li>•Sales result</li> <li>•employment</li> <li>•Reward</li> <li>•Information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>•Strengthen corporate governance</li> <li>•Strengthen "Mono-dzukuri" competitiveness</li> <li>•Collaboration with business partners: Meeting for employees, Plant tour for employees' family, Fostering people, Employees' satisfaction research</li> </ul>
Suppliers	B	"A"	<ul style="list-style-type: none"> <li>•Sales result</li> <li>•Profit distribution</li> <li>•Information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>•Collaboration with business partners: Win-Win relationship</li> <li>•"Midori-kai" group meeting, Management meeting, Support for fostering employees in suppliers</li> </ul>
Distributors	B	"A"	<ul style="list-style-type: none"> <li>•Sales results</li> <li>•Profit distribution</li> <li>•Information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>•Collaboration with business partners: Win-Win relationship</li> <li>•Distributors' meeting, Support for fostering employees in suppliers</li> </ul>

After all, especially for stakeholders whose degree of direct participation is "A", trust depends on **"Sincerity for share lot."**

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1. Visualization of problems is a basic for grasping and solving problems, as it became the first step of Komatsu's V-shape recovery.
2. Companies have to be indispensable for their customers to survive. They also have to provide services with high added value, because a manufacturer which can only supply hardware that cannot be differentiated is not able to avoid price competition.
3. If visualization is a basic for grasping and solving problems, a manufacturer which can support customers to visualize themselves can be indispensable for its customers.
4. IT utilization, cross-functional cooperation, and know-how of visualization are needed for high-level visualization. And Japanese companies are good at them.
5. Future of Japanese manufacturer can be cleared by not only providing hardware but also reinforcing technical support service, for example, providing information or management system (Manufacturer's change to services) by utilizing Japan's strength.

## 6. Tasks of Komatsu

Aim to realize maximization of corporate value by vitalization of continuous improvement and by enhancement of corporate vitality through sharing & spread of the KOMATSU Way in global level.



- The KOMATSU Way for top management
- The KOMATSU Way concerning "Mono-dzukuri"

<Global HR Development>

1. Studying abroad: 1970-  
Total: 233 persons (Current: 7 persons)
2. Business leader training: 1996-  
Training A: 208 persons, Training B: 324 persons (participants from overseas: 5 persons (China) )
3. Working abroad  
•18 from 27 Board members  
•83 from 257 managers in production engineering
4. Global value chain innovation  
2<sup>nd</sup> reform of business structure + Training  
Project: 72



Komatsu's strengths, the beliefs that support the strengths, the basic attitudes and patterns of behavior

To clearly define

To share

1) Strengthening Corporate Governance

Vitalize the functions of Board of Directors, Quality and Reliability of Management

[ 5 Items for Top Management ]

1. Vitalize the functions of Board of Directors
2. Take the Initiative in Communicating with all our Stakeholders
3. Compliance
4. Never put off Responses to Risks
5. Keep thinking about Succession Program



2) Reinforcing "Mono-dzukuri" Competitiveness

"Mono-dzukuri" 7 ways is the core



Aim to grow continuously by enhancing every employee's improvement capability



## 7. Summary

Komatsu's key words for Reform of business structure

Seems to be the same in country level

Tasks of Country	Key words for reform
Management Reform	<ul style="list-style-type: none"> <li>• Visualization</li> <li>• Separation of Growth &amp; Cost</li> <li>• Reinforce strong points &amp; Reform weak points</li> <li>• Operation is only once</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>• Reduction of Capacity Cost</li> <li>• Growth in Asia</li> <li>• Development of "Dantotsu" products and "Dantotsu" Technology</li> </ul>
"Dantotsu" Strategy	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid green; border-radius: 15px; padding: 5px 15px; background-color: #e0f2f1;">Environment</div> <div style="border: 1px solid green; border-radius: 15px; padding: 5px 15px; background-color: #e0f2f1;">Safety</div> <div style="border: 1px solid green; border-radius: 15px; padding: 5px 15px; background-color: #e0f2f1;">IT (Office &amp; Products)</div> </div>

★ Birthplace of Komatsu: Ishikawa Pref.

- ⇒ Production cost in Ishikawa area is not high
- ⇒ Return to Ishikawa
- ⇒ Kanazawa harbor to Busan harbor, Busan harbor to the world

◆ Why Busan harbor?

1. Facility

- Amount of handling containers: 5<sup>th</sup> place (5 times of Kobe harbor)
- Complete facility and service

2. No hub harbor in the shore of the Japan sea.

3. Distance (Seaway)

- Kanazawa - Busan: 380 miles
- Kanazawa - Kobe: 600 miles



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