

Shareholder governance and the PDCA process



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RE-Engineering Partners CEO spoke at our Bull's Eye seminar

RE-Engineering Partners CEO Masato Inada gave a presentation at our Bull's Eye seminar on 18 March. Mr Inada worked at Toyota Industries and McKinsey & Co. before transitioning to the retail sector, and has executive experience in operational reform. In his presentation, he raised three points: (1) Japanese management is often disengaged; (2) real management demands practical skills; and (3) building those skills needs a high-speed, high-accuracy PDCA process.

Why Japanese management is disengaged

PDCA stands for "Plan, Do, Check, Action" and describes an operational cycle: establishing a hypothesis and creating a well-considered plan, executing it, confirming the results, and revising and evolving means and methods in use (Chart 1). Mr Inada believes this cycle has broken down at many Japanese companies, which do not fully respond to changes in the market and as a result lose capacity for sustained growth and profitability. Share prices reflect medium-term growth capacity, so lost capacity translates to lost returns and is something shareholders should not ignore. We discussed a variety of factors behind this at our seminar, weak shareholder governance among them.

What shareholders should demand of management

Mr Inada believes capital market participants should speak up and hold management accountable when they fail to implement a high-speed, high-accuracy PDCA process. As a specific approach, he suggests a dialog wherein shareholders ask how well management has formulated a plan (P) and carried it out (D). Shareholders should then confirm (C) whether the results are in line with the plan and how management intends to improve (A).

Relieving excessive emphasis on financial accounting data

Disclosing earnings data to capital markets is a given, but assessing management's practical skills solely using briefing details on such data is problematic. We believe capital market participants should be proactive in insisting on a PDCA approach to management policies, particularly when serious capital outflow is involved, as in M&A activity or major capex projects.

Profile: Masato Inada

CEO, RE-Engineering Partners

Graduate of the Department of Life Science and Engineering Research at Waseda University graduate school. Holds a Master's Degree in Computer Science from Columbia University graduate school in the US.

Professional history: Toyota Industries, McKinsey & Co., oversaw operational reform at Aoki International (currently Aoki HD), World, Rockfield, Coca Cola Japan, Paris Miki HD, and Himiko. Positions held include CEO, Director, and business/sales management.

RE-Engineering Partners formed in August 2008

Publications include Senryaku Sanbo and Keiei Sanbo (both from Diamond, Inc.)

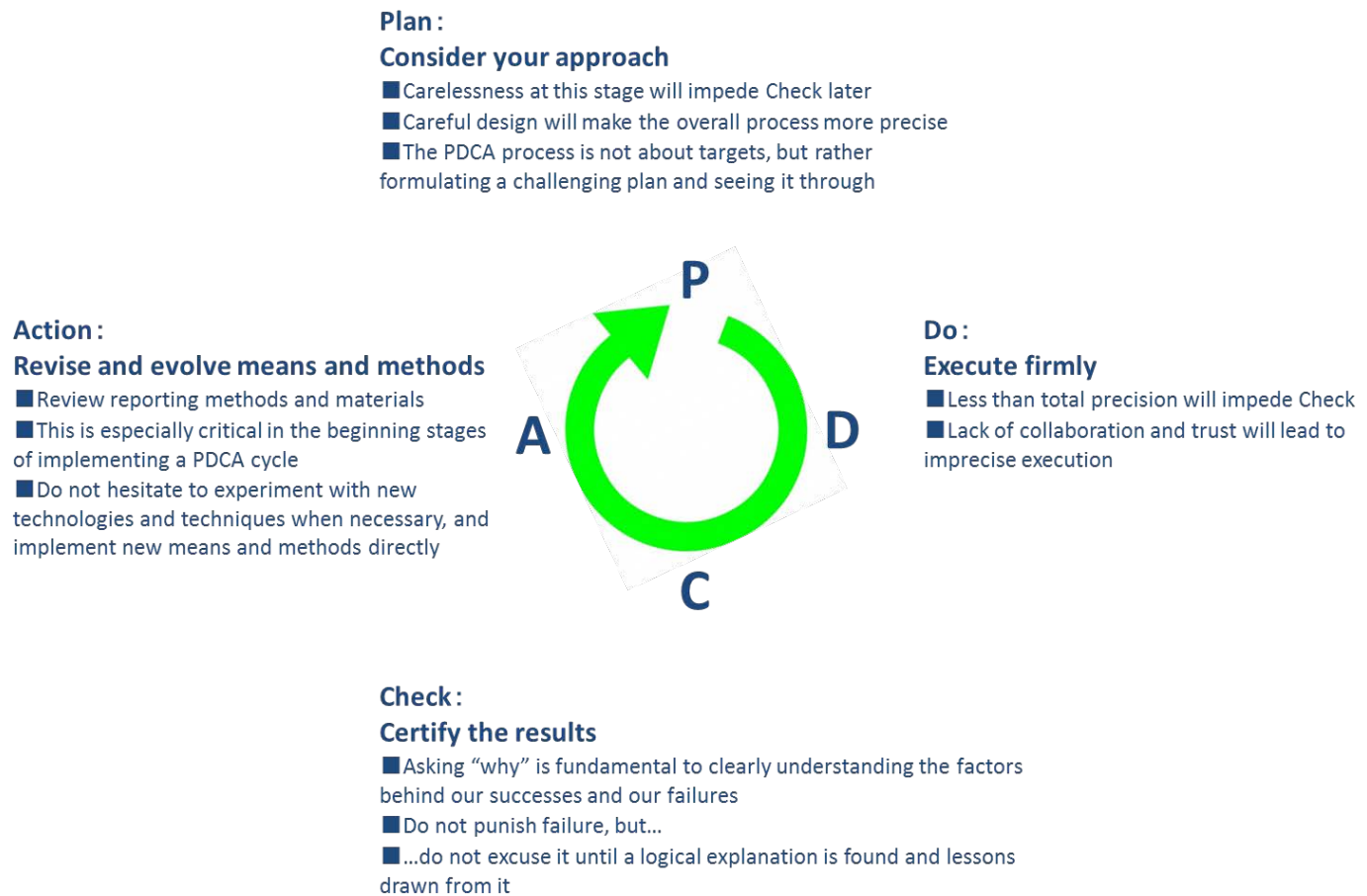
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Chart 1: PDCA cycle



Source: Mr. Inada of RE-Engineering Partners

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