

Social-IN Management Philosophy

– Maximize the Benefits to Stakeholders –

Interviewer: Takamasu Kanji

THE brand name “Olympus” perhaps evokes the image of digital cameras for the vast majority of people. The company sold a total of 7.4 million units in fiscal 2003, giving it 15% share of the global market. This makes Olympus the third largest digital camera manufacturer. However, viewing Olympus Corporation as a camera manufacturer does not exactly provide an accurate portrayal of the entire company. In addition to imaging devices, Olympus offers a unique line of products ranging from endoscopes and other medical devices to microscopes, blood analyzers and reagents. For gastroenterological endoscopes, in particular, the company boasts an overwhelming global market share of 70%.

Olympus announced that it would separate its two main product segments of imaging and medical devices in October, 2004. The company is now implementing a sweeping reform of its management structure in order to promote all of its products in global markets. Since assuming the presidency of Olympus in 2001 after achieving rapid growth and development in the digital camera business following five years at the head of Olympus America Inc., Kikukawa Tsuyoshi has promoted aggressive reform. We asked Mr. Kikukawa about Olympus’ history and management policies.

Q: Olympus is a precision instruments manufacturer with a unique product composition, but what is the background that contributed to this kind of product lineup?

Kikukawa: Olympus was originally founded in order to mass produce microscopes in Japan. That was in 1919. At that time, because Japan was still in the early stages of industrialization, it relied on imports from advanced countries such as Germany and the United States for microscopes. However, these were highly valuable goods for Japanese doctors, and demand for more freedom to use microscopes in medical treatment and research was very strong.



Microscopes are high-tech instruments that combine advanced optical technology and precision processing technology. Thanks to the hard efforts of our predecessors, Olympus became the first company in Japan to successfully mass produce microscopes. So our first products were medical instruments, whereas cameras were an application based on the optical and precision processing technologies cultivated by developing microscopes. Olympus released its first camera in 1936, 17 years after its founding.

Q: Cameras are the first things that come to mind when hearing the brand name “Olympus”. With 68 years of history since releasing its first camera, what characteristics define Olympus as a film camera manufacturer?

Kikukawa: “Olympus” was originally the English brand name of the microscopes we successfully mass produced. The name was taken from Mt. Olympus, the home to the Gods of Greek mythology. However, due to the subsequent increase in overseas exports, the company was renamed the Olympus Optical Co., Ltd. in 1949. We are committed to developing camera technology independently, and produced a lens system “Zuiko.” We have manufactured 35mm cameras, twin-lens reflex cameras, 35mm half-size cameras and single-lens reflex cameras, according to the needs of each era. In particular, we sold more than 10 million of the “Pen (PEN)” series of half-size 35mm cameras. The “M1” single-lens reflex camera (subsequently “OM1”) created a worldwide buzz as a small and lightweight model. We have continued to this day to produce cameras with a variety of functions, such as automatic focus and waterproof designs.

Q: How about manufacturing digital cameras?

Kikukawa: We entered the general digital camera market in 1996. As you know, digital cameras spread rapidly, first in Japan, and now surpass film cameras in other regions of the world too. There are several influential consumer electronics companies as well as film

camera manufacturers in the market.

Competition is intense due to the large number of entrants, and advances in digital technology have resulted in some very impressive products. Olympus was not the first company to sell digital cameras, but when 350,000 pixels were the mainstream, we released a 1.4 megapixel model. It was a huge jump for the time, enabling sharp images, at a popular price under ¥100,000. This model was well received by the majority of consumers. We also received praise for our waterproof digital camera, as well as other models that applied Olympus' accumulated expertise in manufacturing film cameras.

Because of the keen competition in the market, companies are hard-pressed to cut manufacturing costs. As a result, production in China is exploding. Market growth has also led to ongoing diversification of the functions required of digital cameras, and they now range from high-end single-lens reflex (SLR) models to more popular models. Demand from all regions of the world is also becoming more diverse. Olympus seeks to address demand in all these segments. We released a SLR digital camera for professional users last year, and plan to market a popularly-priced SLR model soon. We aim to boost our share of the overall digital camera market from 15% in 2003 to 17% in 2004.

Q: What is the background for the development of another mainstay product, the gastroenterological endoscope?

Kikukawa: Diagnosing digestive system ailments by actually seeing the digestive system without performing intra-abdominal surgery had been a dream of the medical world for a long time. The first camera to take pictures inside the body was developed on an experimental basis in Germany during the 19th century. However, this camera did not see practical application. Olympus began its development efforts after doctors at the University of Tokyo asked whether it was possible to develop a device to take pictures inside the stomach. We released

the first gastro-camera in 1950. This was prompted by the high incidence of stomach cancer among Japanese, which at that time was called a national affliction.

Q: How was Olympus able to establish such a large market share? Since endoscopes came into use, I believe the diagnosis and treatment of digestive system ailments underwent a revolution that continues to this day.

Kikukawa: Over a half century has passed since the development of the gastro-camera, and when looking back at development of modern endoscopes, we see a rich history of numerous improvements and technological additions. This evolutionary process continues to the present day.

The first gastro-camera took pictures of the stomach walls by attaching an extremely small camera and light to the end of a flexible tube. In order to know what area of the stomach was being photographed, the room needed to be darkened so the faint glow from the inserted light could be seen on the body surface.

Current gastroenterological endoscopes are not only diagnostic devices used simply for observation, but they are also used in surgery. In surgery, they can be used to cut tissue fragments with forceps for more detailed examinations, and to remove polyps and cancerous tumors. Moreover, by using a particular wavelength of light, it is possible to diagnose not only the surface of internal organs, but also internal cancerous tissue.

In addition to digestive organs, endoscopes are used in the diagnosis and treatment of nearly all internal organs, including the heart, lungs, liver, pancreas and ovaries, as well as the brain. In terms of minimally invasive procedures, compared to traditional surgery in which the tissue through to the affected area is cut and opened up, endoscopes enable treatment that significantly reduces the burden on patients. I believe these remarkable advancements are the result of a history of sincere responses to the various needs of the medical community.

Photo : Olympus Corp.



The first gastro-camera (GT-1)

Q: What particularly striking improvement has taken place in the history of endoscope development?

Kikukawa: I think the introduction of fiberglass and charged coupled devices (CCDs) were especially major improvements. The introduction of thin and flexible fiberglass gave doctors the ability to confirm the conditions of an affected area in real time. The introduction of CCDs enabled the acquisition of extremely sharp images and image processing. Technically speaking, our technology to precisely bundle fiberglass contributed to obtaining high-quality images.

Q: I would think proficient usage is a major factor given the variety of possibilities. What steps were taken to assist the doctors who use endoscopes?

Kikukawa: Endoscopes are devices that were strongly affected by joint development with doctors. Olympus made improvements in response to requests from doctors for certain functions, and we proposed ideas based on the technological possibilities. I believe today's endoscopes are the product of this type of interaction. Olympus has worked especially hard in the area of endoscope usage, and we have maintained close contact with medical associations in various countries and provide forums for learning how to use endoscopes.

Q: When did Olympus begin exporting overseas?

Kikukawa: Starting in around 1970. The development of an intestinal endoscope served to heighten interest in endoscopes, especially in the United States and Europe. I believe this reflected the high incidence of colon cancer in those regions.

Q: How do you see the future of endoscopes?

Kikukawa: Endoscopes are already used to observe and perform surgery throughout the entire digestive system. Minimally invasive treatments will perhaps steadily expand to include nearly all internal organs. As endoscopes are an essential device in this type of treatment, I expect their use will expand.

For the digestive system, a capsule endoscope was recently released by one manufacturer in Israel.¹ Olympus has also been pursuing research in this area for some time, and in addition to observing the small intestines, we are aiming to develop a model which is applicable to other areas with numerous ailments and which has treatment capabilities.

Q: I cannot help feeling that having cameras and endoscopes as mainstay products is an odd combination, but are there any particular concerns in terms of management?

Kikukawa: Certainly for cameras, functionality that satisfies a broad range of general consumers, as well as good usability, are important factors, whereas endoscopes and other medical devices are extremely specialized products used by doctors for medical treatment. We also produce other products intended for specialists, such as industrial endoscopes, as well as devices and reagents for use in genome research in the Life Science Company (Group), our most recently established internal company.

At first glance, these products seem to be vastly dissimilar, but we view our

core competence as “OPTO-Digital Technologies,”² and all of our products converge in this area.

I believe that no matter how products may differ, the objective of steadfastly providing products that satisfy customers is a common trait shared by all Olympus products. I strongly encourage all employees to put forth an effort with the customer always in mind in the different areas of development, manufacturing and marketing.

Q: What are the common features of Olympus technology?

Kikukawa: We can perhaps count the adherence to independent development, to pursue high quality in all products, and strength in product miniaturization. This is reflected not only in our cameras, but also in the channel ranging from small tape recorders to current IC recorders. A number of our products are the smallest and lightest in the world.

Q: You have carried out aggressive management reform in the last three years. You will also be separating operations into independent subsidiaries next month. Could you reflect upon the progress of management reform so far?

Kikukawa: Before assuming the office of president in 2001, I was given the task of overhauling the company’s management structure under current board chairman Kishimoto Masatoshi. After becoming president, I first cut the size of the Board of Directors in half to 10 members and brought in the Executive Management Committee. This is our third year since introducing an internal company system³ and we have reached the point of separating our two main product segments into independent subsidiaries. In both segments, we are looking to achieve a global organization encompassing all stages of the business, from research to development, production and marketing.

I believe continuous growth requires

rapid decision making and business execution in response to quick technological progress and market changes. I expect company employees to actively accept the challenge of achieving these goals. I ask all division and section managers not to be afraid of failure. We have created an organization in which even if a person takes on a challenge and fails once, he or she will be able to try again. Errors in judgment on this level will not destroy the company.

By separating operations into independent subsidiaries, we seek to better implement the principle of self responsibility in each department. In the extreme, if a separated company is unprofitable, then its employees will not receive any bonuses. In short, we aim for a management format well suited to abolishing dependent relationships in the pursuit of invigorating employees. Going forward, we intend to continue pursuing reform under the banner of “creative destruction.”

Q: Why do you think such major reform is required?

Kikukawa: Perhaps because our company started by manufacturing precision medical instruments such as microscopes, I think it has traditionally had a very cautious corporate culture. While this is a virtue in terms of earning the trust of consumers, it can also be disparaged as overly cautious. A Japanese proverb describes someone with a cautious attitude as one who “crosses a stone bridge after striking it to ensure its safety.” The company’s basic stance used to be much more cautious like “not trying to cross a stone bridge even after striking it three times to ensure its safety.”

However, the pace of change in operating environment, including technology and markets, is accelerating. We make decisions after giving full consideration to how we can best maintain growth in this type of environment. In terms of the company’s profit structure, we intend to break away from a reliance on medical devices.

Notes : 1) For Japanese manufacturers, one other company has announced that a similar development is underway.
2) An integration of Olympus's optical technologies and the latest digital technologies
3) Imaging Systems Group, Medical Systems Group, Life Science Group and Industrial Systems Group

Corporate Profile

Company Name	Olympus Corporation
Established	12 Oct., 1919
Head Office	Tokyo, Shinjuku
Website	http://www.olympus-global.com/en/global/
President	Kikukawa Tsuyoshi
Business Lines	Manufacturing and sales of equipment and devices for medical and healthcare, imaging and information, and industrial applications 35mm and APS cameras, digital cameras, microcassette and IC recorders, binoculars
	Medical fiberscopes, endotherapy instruments, ultrasound endoscopes and accessories
	Biological microscopes, clinical analyzers, genome analysis systems, information processing equipment, industrial fiberscopes, industrial microscopes
Number of employees	6,259 (in Japan, as of March 2004)
Net sales (FY2003)	US \$ 5,760 million
profits	US \$ 305 million



Q: Given that Olympus has recently started to sponsor the Ferrari Formula 1 team, it seems the company has also changed its advertising strategy.

Kikukawa: This is one indication of our intention to target younger consumers more robustly than in the past, especially for digital cameras. In our domestic commercial, we are also employing a screen talent, Takizawa Hideaki, who is popular among young people in Japan.

Q: All of Olympus' products appear strongly oriented toward global markets; approximately when did this begin?

Kikukawa: Sales in the Japanese market currently account for 24% of total sales, while sales to other regions comprise the majority at 76%. Looking back over the company's history, we exported 15 microscopes to Australia as early as 1934. Our current sales network spans nearly the entire globe. In terms of production, we first started manufacturing microscopes in India in 1960. Our largest production facilities for cameras and other imaging equipment are located in China, and we produce some medical equipment and blood analyzer reagents in Germany, England and Ireland.

Q: Can you tell us about the structure of the company's global operations?

Kikukawa: In China we have three manufacturing facilities and 14,000 employees. In Europe we have 43 local subsidiaries in 25 countries. We also have local operations in the United States of course, as well as in Latin America. Over time we have switched from our previous reliance on local dealers to a system of local subsidiaries established through investment by Olympus.

Q: What about the role of non-Japanese employees?

Kikukawa: With few exceptions, the top management at local subsidiaries is comprised of citizens of that country. A primary goal of the upcoming separation is to enhance the efficiency of decision-making among a variety of employees located in several different countries. At the two separated companies, there will be two non-Japanese board members at Olympus Imaging Corp. and three non-Japanese board members at Olympus Medical Systems Corp. Their numbers may increase in the future.

Olympus' recently adopted corporate slogan, "Your Vision, Our Future," was proposed by our subsidiary in England. The "our" in Our Future is said to refer to all of humanity, rather than Olympus employees. I also have a great deal of empathy for it.

Q: Please talk about the future direction of Olympus' global operations.

Kikukawa: I think one characteristic of many Japanese companies is that if a rival company releases a product with some kind of new function, they look to respond by also adding more value.

But I say this is already too late. Being too late in this way is known as "missing the bus," and instead, I want the employee to "acquire customers by running ahead of the bus," and to "create an Olympus bus."

My motto is to "maximize the benefits to stakeholders." Simple shareholder returns are not enough. I seek to increase the value of the company for all people associated with Olympus, including shareholders, customers, employees and business partners. By doing this, I think all activities will improve in a "positive spiral." Though a bit abstract, I believe we can contribute to improving the well-being of people around the world through "OPTO-Digital Technology." In other words, this represents and is tied to the implementation of Olympus' Social-IN⁴ management philosophy, which refers to Social INVOLVEMENT, INSIGHT and INSPIRATION. **JS**

Takamasu Kanji is an editor and biographer. He is also a senior advisor to the foreign editor of the New York Times.

4) This expression emphasizes our commitment to be a "Value Creating Company," whose products are invariably focused on social value and real customer market needs.