

Kyocera case study

Education



According to the footnotes on the initial page of this case study, it was written by Nancy Rothbard of the Harvard Business School for the purpose of discussion rather than for analyzing the handling of an administrative problem. The format is generalized and it gives a broad spectrum of information from which a student can extract pieces relevant to his or her area of study for a specific class. Since this case analysis is for a class in Strategic Cost Management, the main area of interest for this paper will be in the area of “ cost management”.

However, given the broad spectrum of information, the analysis is not limited only to cost management facts and issues, but also includes information that is relative to other management topics. Rather than looking for a group of existing administrative problems, the focus is strategic in nature and addresses issues that could be problems in the future based on the status of the company at the time the case was written. The analysis includes information for the time period covered in the case study with a few references to Kyocera in the period of time after this case was written and up to the present.

Introduction Kyocera Corporation was founded in Japan in 1959 as the Kyoto Ceramic Company. , Ltd. by Dr. Kazuo Inamori and seven colleagues. With Dr. Inamori providing strategic direction, the company grew from a small niche market player to an international conglomerate in a relatively short period of time. Within 30 years Kyocera was a world-class leader in their core product (electronics packaging) market. In addition, through mergers and creation of new business units Kyocera was able to successfully diversify into other areas of technical expertise.

Seven product groups accounted for ninety-nine percent of Kyocera Corporation's sales of approximately \$2.7 billion in 1990. (The additional 1% of sales was simply labeled "other" in the case study documentation.) The products are divided among 80 companies in different geographical locations. The firm differentiated itself from competitors by providing world-class customer service. After establishing itself in a core product line and market, the firm was in a position to take the risk of entering additional markets, with additional products added to the mix.

Kyocera had a unique management system based on work cells called "amoebas" and a somewhat unique corporate philosophy and culture based on Dr. Inamori's personal beliefs. The leaders of the company were very dedicated to the corporate philosophy and placed high value on making sure all newcomers were indoctrinated and accepted the corporate culture as well. The management philosophy, international business parameters, diversified product lines, corporate culture, and continued growth all have their challenges for the company. Some of these challenges are in the area of costing.

Close examination reveals that there are both strengths and weaknesses in the way these business characteristics are handled by Kyocera. Corporate Profile/Background Key Personnel: Dr. Kazuo Inamori - Founder and architect of the firm's business strategy. Dr. Inamori was a powerful force in the development and growth of the corporation. Without his leadership the company would likely not have grown as fast or been as diversified as it became by its thirtieth (30th) year in existence. Seven unnamed colleagues of Dr. Inamori who founded the company with him. They provided upfront

capital, labor, and personal sacrifice to get the company started and on solid ground. Although these men had vision, they were no match for Dr. Inamori's foresight, enthusiasm, and philosophical predisposition for success. Kinju Anjo (Vice Chairman) and Kensuke Itoh (Kyocera President) who stood in for Dr. Inamori when he could not be present at meetings. Kyocera's Product Groups: Kyocera's management referred to themselves as a high-tech solutions provider. This was because of the company's focus on meeting the customer's needs for specialized components.

The list of products below is a testament to that high-tech solutions label.

Electronic Components - The electronic components product group provided discreet electronic components to industries that manufacture consumer electronics and to manufacturers who provided specialized products with stringent specifications to governments and industry. Chip capacitors, chip resistors, Hybrid IC's, and quartz oscillators. In addition, thermal print-heads were included within the electronics components group. Most of these items are low-price, high-volume products.

Semiconductor Parts - The semiconductor parts product group provided the substrates and components typically used in the more expensive integrated circuit packaging. These are used in expensive machinery that is used in industrial, military or other heavy duty applications where stringent specifications are desired.

Electronic Equipment - The Electronic Equipment group manufactured and distributed communications and I/T (information technology) equipment in the form of computer peripherals, video conferencing systems, and memory for sale to manufacturers of computers and consumer electronics.

Optical Instruments - The Optical Instruments product group made single-lens reflex

cameras, 8 mm video camcorders, and compact cameras. Consumer Related Products - The Consumer Related Products group manufactured and sold jewelry, cutting tools, solar cells, dental and orthopedic implants, and ceramic knives. Industrial Ceramics - The Industrial Ceramics products group made pump and valve parts, semiconductor fabrications, Fiber-optic and optical communications equipment, and automotive parts. Ceramic Materials for Electronics - The Ceramic Materials for Electronics product group manufactured very specialized components for electronic systems. Glass for color TV's, precision resistors, and thermal print-heads. Also ceramic substrates for specialized IC components were a product in this group. Management System: The management system at the Kyocera Corporation is very unique. It's uniqueness is a result of the management ignoring standard management structure in other companies and developing a system to address problems that have been witnessed at other companies. i. e. runaway corporate bureaucracy.) There were some inherent problems in the Kyocera management systems that manifested themselves as the company grew. (These are listed in the analysis section of this report.) However, it is not likely that these problems would have merited scrapping the whole corporate structure, but implementation of minor changes could help improve profitability. The components of the management system are as follows: Amoebas - These components are profit centers with an average of 30 members.

One official leader/motivator and very little or no other formal structure. The amoebas rated performance on a basis of hourly efficiency per month. This was calculated by dividing net profit before labor and taxes by the total labor

hours. Hans - These are smaller working groups that are under the Amoebas and do not have responsibilities as a profit center. Upper Management Reporting Structure - The upper management in each company or division would attend a series of meetings designed to update from the top down and provide status information from the bottom up. Company or Division Level Reporting Structure - The very top managers from each company or division would go to Kyoto or later Tokyo to update the headquarters level management personnel on the status of projects in their respective organizations. Corporate Philosophy/Culture Dr. Inamori's Beliefs - The beliefs that are important in this analysis are the ones that were imported into the corporate philosophy and had the potential to affect the profitability or effectiveness of the company. For example, Dr.

Inamori's belief that a person should never give up when pursuing answers to technical problems is certainly admirable. However, when a project becomes unprofitable, it is sometimes wise to make a decision to cut the losses. Wisdom is the key to knowing when to give up. Dr. Inamori's belief in Respect for the Divine and Love People serves as a motivational backdrop to the culture at Kyocera and has helped to make the company a success. (There is much more to cover on Inamori's influence and it will be covered in the sections to follow. Centralized Management - Kyocera's management system was very centralized in 1990 and the company was outgrowing the usefulness of such a system. With 80 companies and countless divisions, the old way of management meetings for reporting purposes was becoming unproductive and unmanageable. Problem Resolution - Problem resolution for transfer pricing and other issues was handled through the management

system. No “ final decisions” were forced on any organization, but the organizations were expected to negotiated and solve problems among themselves.

The problem was escalated up the chain of command until it reached Inamori himself. The information presented above and additional information in the the case study itself provide enough background for a person to analyze the strengths and weaknesses of the corporation. Using this information one can do an analysis and make recommendations for improvement. Important Characteristics of the Kyocera Corporation The characteristics of the Kyocera Corporation listed below are important to the analysis of possible issues facing the company now and in the future. Continuous Growth - As Kyocera continues to grow issues will surface that are a result of the size and complexity of the corporation. The entire organization will no longer be able to report progress in management meeting the same way it has been done for the last 60 or so years. The reporting matrix will need to be re-vamped to allow moreresponsibilityat the division or company management level with ultimateaccountabilityfor quarterly profits at that level as well. Also, costing and transfer pricing issues need to be handled as a team between organizations.

Too much autonomy can be as detrimental to the organization as too little. A balance of power and decision making needs to be tempered with a team approach to making each company or division as profitable as possible. Diversification - One characteristic that is a result of Dr. Inamori's risk taking philosophy is the diversification in the product line. The products are high-tech enough to be a good fit in the company, but different enough that the

different divisions and companies that make up Kyocera don't end up competing against one another in a way that is detrimental to the company as a whole. Kyocera is an International Corporation - Cost is a good reason why this is an important characteristic of the company. Being international allows Kyocera to take advantage of labor savings associated with manufacturing in some countries, while selling products in countries that will bring in the most profit. Being international also gives Kyocera access to markets in differing countries without as many distribution headaches as other manufacturers. Minimization of Corporate Bureaucracy - Kyocera focuses on minimizing bureaucracy.

This eliminates costs associated with red and gives the Amoebas the flexibility to manufacture at the lowest cost. Measurement System - The measurement system is good in some respects and bad in others. Production targets are set internally by the same group that is attempting to make its goal a reality. This is a concern due to the lack of standardization and potential for poor targeting. Never Give Up Mentality - Dr. Inamori's "never give up" philosophy is both a strength and a weakness.

It is good for sharpening the focus of work groups, but at the same time could encourage unwise decision-making. Strategic Cost Concerns - Early in its existence, Kyocera was focused on keeping sales, general, and administrative expenses below industry standards. However, the management reporting practice and philosophy, as well as lack of standardization of costing methods within divisions or companies may work against the company in the area of cost. - Retraining costs with the frequent break-up of Amoebas is a concern. Purchasing parts at market prices on the

open market that are also made by Kyocera-owned companies is a problem.

- The cost of monthly reporting meetings is minor, but may be a growing expense across the board (for all divisions and companies) as the organization grows. **Kyocera's Inherent Strengths Quality of Leadership:** Kyocera had strong leader in Dr. Inamori. His philosophical outlook and decision making abilities set the tone for success at the company.

This type of leadership cannot be taught, but is inherent in an individual.

Technical Expertise: The company's technical expertise is due to their focus on individuality and specialization. This helps the company in the area of new product development. **Diversified Product Line:** The products are high-tech enough to be a good fit in the company, but different enough that the different divisions and companies that make up Kyocera don't end up competing against one another in a way that is detrimental to the company as a whole.

Reputation: Kyocera's reputation for quality and getting the job done will help them retain earned market share. **Tenacity:** Tenacious competitors in business always fair better than those who give up easily. The spirit of tenacity at Kyocera earns them the respect of their customers **Working Environment Positive Attitudes:** The positive environment at Kyocera helps retain expertise with employee retention and it fosters a non-threatening creative environment. **Autonomy:** The autonomy of the Amoebas fosters creativity and lack of bureaucracy costs.

International Status: Being international allows Kyocera to take advantage of labor savings associated with manufacturing in some countries, while selling products in countries that will bring in the most profit. Being international

also gives Kyocera access to markets in differing countries without as many distribution headaches as other manufacturers. Areas of Weakness Some Elements of the Corporate Structure Centralized Management: The corporation is getting too large to maintain the current management reporting structure.

The complexity will slow decision-making and be costly. Autonomy: Retraining costs with the frequent break-up of Amoebas is a concern. Product Overlap among Companies or Divisions: Repetitiveness in product lines is costly due to the repetitive support structures. Measurement System: Top-down setting of goals for Amoebas would be more appropriate. This would ensure some standardization among expectations placed on workers. Transfer-pricing: Kyocera to Kyocera pricing should be lower than open market-prices.

This would help sister organizations be more competitive. Additional Analysis Threats from New Competitors: Kyocera will have to be aware of new competitors at all times in the high-tech marketplace. Each division or company in the corporation must be aware of who the players are in their market. It would hard for any one niche player to become threat to Kyocera as a whole since they are very diversified. Rivalry among competitors: Kyocera must be careful to make sure this does not take place within its own corporate umbrella.

There is no immediate rivalry of outside competitors that is obvious in this case. Substitute Products: Kyocera does a good job of battling this by taking on tasks that nobody else wants or has the tenacity to tackle. Suppliers Power: In many cases this firm is their own supplier. It is unfortunate that

sister divisions or companies do not work closer together and become a powerhouse together. Buyer or Customer Power: Ditto the comments above. Also the buyers from outside have their purchasing power/threat to Kyocera limited by Kyocera's diversification.

Value Creation: Inbound and outbound logistics are strengths in Kyocera due to their international presence. They provide their own marketing channel through salaried sales professionals and have the product base to support using outside channels when possible. Advertising, pricing, etc. are handled by the individual divisions and companies. Service activities fall in the other column that makes up 1% of sales on the product organization list. This column does provide value to the customers and the company to the tune of \$27 million.

Current and Future Opportunities

Re-alignment of the reporting structure: By re-aligning the reporting structure Kyocera can save cost and improve communications in the corporation. High-Tech changes in the Macroenvironment: New opportunities to be first in the area of communications are coming available with the internet, cable, and wireless communications areas. Transfer-pricing changes: Kyocera to Kyocera pricing should be lower than open market-prices. This would help sister organizations be more competitive. Expense Reduction: Administrative costs could be reduced by realigning the reporting structure.

Product Overlap among Companies or Divisions: By combining operations for overlapping product lines Kyocera can save support costs. Potential Threats Current High-Tech changes in the Macroenvironment: Technological change

does not stand still. New communications products and technologies make old ones obsolete every day. Corporate Growth: Communications and repetitive costs may become issues. Repetitive organizations as a result of mergers and acquisitions should be analyzed and handled appropriately. This may mean dismantling some organizations to save money.

Action Items to be considered Change the Management Reporting Structure:

The management reporting structure change could improve communications and help reduce administrative expenses Combine Support Operations for Different Companies in the Same Product Group: Repetitive support structures cost money. By combining support operations expenses could be reduced. Establish new corporate transfer-pricing guidelines. Corporate Guidelines for transfer-pricing could help make some of the business units more competitive.

Reduce the autonomy of the Amoebas: Amoebas do not need to be doing their own costing and profit or production target setting. Recommendations Establish new corporate transfer-pricing guidelines base on sound judgement and principles: Focus on competitiveness and provide special pricing to sister business units to help make them more competitive. Focus on cost reduction in the administrative expense area: Implement conference calling, eliminate as much travel as possible, and combine support operations for multiple units to produce cost savings.

Reduce the autonomy of the Amoebas: The amoeba level is too low on the management structure to make decisions on production targets and profitability. Move costing up to a higher level and allow input on production

and profit targets from the amoebas, but put accountability at the next level of management up.

Bibliography

1. Kyocera Corporation, Nancy Rothbard, Harvard Business School, Publishing Division. 1991. Document #9-491-078,. Revisioned July 1993.