

The Global Roar and Heartbeat of Japan Inc's Outstanding Entrepreneurs

By KEE Koon Boon

If there is a vantage point for the roar of the far-sighted and hardworking entrepreneurs to radiate globally, symbolizing that profound panoramic awareness-looking everywhere, it would be from the temple-topped hills of Kyoto.

Kyoto, the ancient capital city of thousand-year old temples with a population of 1.5 million, had become a hub of entrepreneurial activity in post-war Japan. Spared from the annihilation of Allied bombing campaigns, Kyoto was one of the few places with infrastructure intact enough to set up small to medium-size businesses, *chu-sho kigyo*, while other parts of Japan laboriously rebuilt old conglomerates.

Rigorous and friendly domestic rivalry prepares the entrepreneurs for global fitness to conquer world markets with innovations and performance, driving one another to new heights of performance. They actively seek competition with the best companies in the world as they are acutely aware that greatness on a global scale is attained only by confronting the best – wherever they may be. And when entrepreneurs in the city faced trouble, they often turned to one another.

From amongst the litters of entrepreneurs rose several global champions, particularly Kyocera (advanced ceramics and solar electric generating systems), Murata (capacitors, ceramic filters), Nidec (motors). But it is their social mission that distances these Raion Entrepreneurs from the rest in their staying power and endurance.

Born into poverty, Kazuo Inamori lost his family home at age 13 and almost died that same year after contracting tuberculosis. A religious neighbour handed him several Buddhist religious tracts, urging him to meditate on the meaning of life. As he meditated, his TB subsided. His reprieve left Inamori with the idea that he should strive for the betterment of humanity.

Carrying this value in his heart, Dr. Inamori built two world-class companies from scratch in the course of a generation – global advanced ceramics company Kyocera (founded in 1959) and Japan's second largest telecommunications firm KDDI (established in 1984), with a combined market capitalization of nearly US\$52 billion and employing 80,000 kindred spirits. Through his commitment to society, which include the creation of the Nobel-class Kyoto Prize which honors contributors in technology, science, arts and philosophy by his Inamori Foundation, Inamori-san, 79, carries the voice of entrepreneurship on a global scale as the "Entrepreneur for the World", an award he was presented with during the World Entrepreneurship Forum in 2009.

As president of Seiwajyuku, a business leadership association dedicated to nurturing business owners and entrepreneurs, Inamori-san, ordained as a Buddhist monk at 65, offered this advice to entrepreneurs: "If your goal is to be a rich and beautiful celebrity, or if you are not willing to sacrifice yourself for the world and other people, do not try to be an entrepreneur. Entrepreneurs have heavy responsibilities and must share the fruits of their labor with employees and shareholders. We must always have criteria in our hearts that can help us answer the question, 'What is the right thing to do as a human being?' and guide us to do what is good for society and humanity in our daily work."

“The creation of employment is the largest contribution to society”, Shigenobu Nagamori, founder and president of Nidec, said resolutely. Founded in 1973 with the help of three friends – all, like him, engineers – Nidec is the world’s largest maker of miniature precision motors for electronic devices with a US\$9.5 billion market cap. In 1979, the team developed a novel, electronically controlled, or brushless-design, spindle motor for hard-disk drives (HDDs) to change the operation of conventional motors, reducing the energy consumption of electric motors by up to a third. With motors consuming more than half of the world’s power demand, he “captures the souls” of his troop of more than 96,000 employees with the vision that they are helping to contribute to cutting the world’s power needs by improving the performance of the motor they make.

Nidec extended its global reach into nearly every corner of the electronic-motors world through a series of 30 acquisitions since 1984 to expand its technology base and distribution network, such as the motor divisions of US engineering firm Emerson and French autoparts maker Valeo, Sankyo Seiki, Hitachi’s Japan Servo, Toshiba’s Shibaura, divisions from its primary customer Seagate. And Nidec grew without laying off a single employee throughout its history, even at acquired companies that were struggling.

Through a manga-style comic book that tells his story and distributed to schoolchildren in Kyoto, Nagamori, 67 years old and the youngest of six children born to a poor farmer, hoped to inspire them to found their own ventures based on the right values: “I believe if you want to be an engineer, money’s not the only thing. Engineers are often pursuing a dream about inventing new products that will benefit other people.” Powered by these deep-seated values, the inner motor in Nagamori drives him to work all year round, including Saturdays and Sundays, and he takes only a half day off on January 1st – the one day of the year when nobody works in Japan.

The inventions of Inamori, who was the first person in Japan to synthesize Forsterite, a kind of ceramic that played a pivotal role in electronic circuitry for TV sets, helped supported Japan’s global revolution in TV manufacturing in 1950s after WWII. Kyocera’s advanced ceramic materials also fostered the development of the semiconductor industry. Similarly, Nagamori’s inventions in motor technology also sparked the ubiquity of HDDs that are used in computers, mobile music players, cell phones, car navigation systems, and other digital equipment.

Outstanding entrepreneurs want to build and scale their businesses so that they can give more. Only when we have the desire to give, then can we want to persevere in building something meaningful. This urge to build in order to give is the magnetic north to scale a durable economic moat and they work obsessively to realise this vision. The works and the roar of outstanding entrepreneurs such as Inamori and Nagamori are akin to the resolute gong of the temple bell. They resonate because the sound reverberates in our hearts, stirring the everlasting values that matter: Sacrifice, Honor, Duty, Hardwork, Fairness, and Humility.

The roar of these eternal values is heard most clearly by diligent and caring value investors.

Looking Through the Italian Lenses to Build Asia's Prosperity 500 Companies

By KEE Koon Boon

Why is it that throughout the financial crisis, Italy has remained Europe's second-largest export economy, after Germany, despite Italy being ranked as the 80th place in the World Bank's "Ease of Doing Business" survey because of his strong labor unions, seemingly boundless bureaucracy, organized crime, and endemic tax evasion?

"Work always came before everything." Words behind why Italy has withstood the worst of the crisis. Words uttered by a man who grew up with an orphanage education at age 7 in post World War II Milan and severed part of his finger in a mold-making factory while working as an apprentice to put himself through design school. Words spoken by someone who understood that passion in building something lasting entails sacrifice.

Words by Leonardo Del Vecchio, the founder of Luxottica, which is the world's largest eyewear company with a market cap of US\$18 billion that has multiplied more than 20-fold since its listing in 1990. Importantly, it is one of Europe's most respected companies that is responsible for revolutionizing and dominating the entire eyewear industry, creating a fashion concept out of a functional item and putting luxury glasses on the world.

These far-sighted long-term entrepreneurs underpin Italy's ability to provide a counterbalance to its high public debt and stay resilient as they sought to protect their wealth by reinvesting in their businesses, combining both manufacturing know-how and service expertise to globalize their firms with fierce competitiveness.

Italian small and medium enterprises contribute to 80 percent of the economy and employ 80 percent of the workforce; these figures are rather similar to the Asia Pacific region except that the Asian SMEs account for only 30 percent of exports. SMEs make up the backbone of the Italy's economy trying to extend exports or to open up overseas branches. Italian executives are also fond of saying that 40 percent of a German Audi vehicle is made up of Italian goods. These agile creatures, darting between the legs of multinational monsters, are hungry global champions, with some of them such as Luxottica scaling up to become world leaders.

A critical mass of long-term outstanding entrepreneurs will be the key to how the sprawling Asian SMEs can transform themselves into multibaggers and for Asia to create its very own Prosperity 500 companies, as opposed to the Fortune 500 companies. This is particularly so when Asia is bigger economically in size because products and services sell better as a result of rising cultural cohesiveness and superiority.

Agordo, in the province of Belluno near the Dolomite Alps in northeast Italy, is the place where Leonardo Del Vecchio started Luxottica in 1961. Italian excellence had historically been developed and organized around industrial clusters – sunglasses in Belluno, cashmere in Biella, leather in Arzignano, handbags in Prato, textiles in Carpi, furniture in Manzano, ceramics in Grottaglie, pasta in Parma, mechanical engineering and packaging machinery in Bologna – to leverage upon the

competencies, resources, and social capital of one another to compete as a network rather than as individuals.

Using his metalworking skills picked up as an apprentice to a tool and die maker in Milan, he first made spectacle parts, followed by complete eyeglass frames in 1967 under the Luxottica brand and ended the contract manufacturing business by 1971. By this time, ten years had passed since Del Vecchio established Luxottica in “Stage 1”. Most SME business owners would have been contented to keep what they have. Long-term outstanding entrepreneurs distinguished themselves as far-sighted people doing things with a long-term approach because they strongly believe that is the only way to build a truly durable and excellent business.

Del Vecchio saw early on that know-how in design and manufacturing, service excellence, globalization of the business, and financing vitality are inextricably linked as crucial ingredients for building and scaling a durable economic moat that is needed for sustained growth. After his first ten years, he laid the groundwork in the next twenty years to craft his *magnum opus*. He first acquired Scarrone, a wholesale distribution company in 1974. Subsequently, he set up its first international subsidiary in Germany in 1981, the first in a rapid period of international expansion.

A key breakthrough came when he struck a licensing deal with Armani in 1988, and Armani continues to hold a 4.88 percent equity stake in Luxottica till this date. The Armani coup proved to be the first of many licensing deals. Thus, Luxottica became one of the biggest consumer companies that consumers have never heard of, making sunglasses and frames for most of the famous brands under license which include Bulgari, D&G, Salvatore Ferragamo, Prada, Burberry, Chanel, Polo Ralph Lauren, Versace, Miu Miu etc.

“Stage 2” commences when the company was listed in New York in 1990 (later in Milan in December 2000). The listing not only exposed Luxottica to the disciplines of financial accounting and governance, but also enhanced its ability to acquire other brands as Luxottica embraced the difficult and painful path to stay focus to deliver results. This started with Italian brand Vogue (1990), followed by Persol and LensCrafters (1995), Ray-Ban and Revo (1999), Sunglass Hut (2001), OPSM (2003), Pearle Vision (2004), Cole National (2004), Surfeyes (2006), and Oakley (2007). Luxottica now possesses its own brands and a wide-reaching network of more than 6,000 retail outlets. Its group sales hit a record high of nearly US\$8 billion in 2010.

While Del Vecchio, now 76 years old, continues to hold a 67.6 percent stake in Luxottica, he made the bold move back in July 2004 in appointing an outsider as CEO. The executive is Andrea Guerra, a low-profile and respected executive who had helped Merloni (now called Indesit), the Italian maker of washing machines and other white goods, to double its sales and treble its earnings during his four years in charge. Luxottica has since grown from strength to strength and US\$9 billion in shareholder value has been created.

Interestingly, in its family of over 60,000 employees, the number of women working in Luxottica – where 60 percent of its customers are women – accounts for over 60 percent, and over 30 percent are in senior positions. This is a stark contrast in corporate Italy which lags behind most industrialised nations in terms of working women at all levels of seniority.

Luxottica also gave back to those in need. OneSight, a Luxottica Group Foundation, is a family of charitable programs dedicated to improving vision for those in need through outreach, research and education. It has since helped millions worldwide to improve their vision.

Value investing is about having an eye for the long-term outstanding entrepreneur who is born every day, even under the most austere of conditions and environment. A healthy seed can withstand adverse conditions for extended periods of time, waiting for the right combination of conditions for growth to begin.

It takes diligent and caring value investors to understand how outstanding entrepreneurs are able to assemble the building blocks in the environment, captured from a roiling sea of material, and set them into place as required, and how they burst asunder the limits of existing knowledge when they introduced their new innovations to positively create value for the customers and society.