

# II

## **Taking the First Step into the Next 100 Years**

**- A Roadmap for Becoming a GGSC,  
Presented by Top Management -**

# 1

## Becoming a Global Group of Companies that Contributes to “Food,” a Fundamental for Humanity — Interview with Chairman of the Board Masatoshi Ito

### Masatoshi Ito

Chairman of the Board

Born in Tokyo in 1947. Joined Ajinomoto Co., Inc. in 1971. Served in positions including General Manager of the Processed Food Department of the Food Products Division, Representative Director and President of Ajinomoto Frozen Foods Co., Inc., Representative Director & Corporate Senior Vice President and President of the Food Products Company of Ajinomoto Co., Inc. Appointed as Representative Director, President & CEO in 2009 and Representative Director & Chairman of the Board in 2015. Also has important responsibilities outside the Group, including as President of the Japan Sport Association, Chairman of the Japan Overseas Enterprises Association, and President of the Japan Advertisers Association Inc., and serves as an outside director of Japan Airlines Co., Ltd. and NEC Corporation.



When the Ajinomoto Group celebrated the 100th anniversary of the launch of *AJI-NO-MOTO*® in June 2009, current Chairman of the Board Masatoshi Ito was appointed as Ajinomoto Co., Inc.’s 12th Representative Director and President & CEO. Although the company had recorded a loss in FY2008 and the situation remained difficult due to factors such as the Great East Japan Earthquake in 2011, President & CEO Ito achieved a recovery in business results through measures such as reorganization of unprofitable businesses and cost reductions. Through the FY2011 - 2013 and FY2014 - 2016 Medium-Term Management Plans that followed, he formulated the vision to become a “Genuine Global Company” and by advancing FIT (business structure reform) and GROW (growth driver development), he achieved record profit in FY2015. While working to realize this, he also focused on external collaboration and the establishment of a base suitable for a global company in terms of organization, human resources, and other areas.

Furthermore, the Ajinomoto Group Creating Shared Value (ASV) that was formulated under his leadership advocates creating both social value and economic values and reaffirms the philosophy held by the Ajinomoto Group since its founding. This will be passed on to future management for many years to come.

What are Chairman of the Board Ito’s thoughts and feelings about these various management initiatives that he led?

### ■ Appointment during a time of crisis and promotion of information sharing

**Q:** When you were appointed President & CEO, the Company was marking the 100th anniversary of the launch of *AJI-NO-MOTO*®. What was your impression of the situation at the Company and the challenges it was facing at this time?

**Ito:** While publications of the Ajinomoto Group’s history such as “The First 100 Years of the Ajinomoto Group” had content

such as “looking at the next 100 years,” in reality we were not in a position to look 100 years into the future.

The animal nutrition (referred to as feed-use amino acids at the time) and pharmaceuticals businesses were struggling. Under the leadership of President & CEO Kunio Egashira (1997-2005), the animal nutrition business had been extremely successful, generating about a third of overall profits. This was the result of the accumulation of research carried out by the Company over many years. However, from 2005, although the rise of Chinese manufacturers had expanded the market,

a big drop in price per unit had started to drag profits down. Furthermore, as a precursor to this, the inability to meet supply volumes meant that a majority of our capital investment had been spent on reinforcing animal nutrition, which pushed the business into the red. The pharmaceuticals business was also struggling due to its lack of scale. Although it managed to record operating profits of over 10 billion yen for a time, drug development generally involves producing one successful new drug every 10 or 15 years, which puts too much burden on a small business. Both businesses were suffering due to changes in structure and environment.

In addition to this, we also faced factors such as the 2008 global financial crisis (the Lehman Shock) and foreign exchange losses. As a result, although our share price had been steady at around 1,500 yen for over 10 years, it had dropped to about 670 yen when I was appointed.

**Q: It must have been a very difficult situation.**

**Ito:** Before becoming President & CEO, I had started attending investor relations (IR) events as a Corporate Senior Vice President, and the rough tone in which we were questioned by analysts made me realize that we were in an urgent situation. We were also receiving harsh words from former employees who held shares, and employees were also starting to question more seriously whether the Company was all right. The labor union also pointed out that in this sort of situation, top management tended to retreat from the front lines.

Therefore, rather than thinking about future aspirations and the next 100 years, we first had to do something about the situation at hand.

**Q: What did you do first?**

**Ito:** First of all, I thought it was important that we explain the situation to all stakeholders, both inside and outside the company, and show them the direction we planned to take. To do this, it was essential that our understanding of the company's situation was accurate and that we verify our planned direction, so I hired a consulting company for the first time. Up to that point, there had been very little inclination within the Ajinomoto Group to use external resources, and some thought that it would be meaningless. However, I did not intend to leave these consultants think or follow their directions blindly. Rather, I thought it would be worthwhile to receive verification that our analysis and direction were appropriate, so I actively met with analysts and management advisors and listened to their opinions.

**Q: What did you do to explain the situation and direction within the Company?**

**Ito:** I repeatedly told the Public Communications Dept, "Your work is not just to communicate externally. Our employees are the most important communications targets." At that point, employees were not considered targets of communications activities. While there had been a monthly internal magazine, its publication had shrunk to four times per year because it

wasn't being read. However, nobody is going to read a piece of paper handed to them about events that happened several months before. For this reason, I urged that we consider why no one was reading it and what we could do to make employees take an interest. As a result, we started to post the "CEO Headline" in both Japanese and English on the Group's intranet. We wanted to provide an understanding of the Group's actions and messages through my activities as President & CEO. As a result, we started sharing photos and reports around the world within a week of events. Previously people had no idea about what the President & CEO did, and they probably thought I just sat in a chair and checked things. So, I went, "I'm working and communicating like this!"

There was one more internal communications initiative we carried out at that time. We made it so that a summary of the main points discussed in weekly Executive Committee meetings was shared around the world immediately after the meetings. Up to that point, explanations had been made orally and only to the general managers. This was to prevent information leaks. However, when looking into this, we found there were inconsistencies in the amount of information that was being passed down to managers and their subordinates. While some general managers would pass on 90% of the content, others would only communicate half. This was not a case of them not wanting to talk – it is just that they were not able to. There were some aspects, such as financial matters, that they did not fully understand. As a result, the information being passed down varied and there were many people who did not understand what the Company was thinking. By putting information into a document which was only viewable by managers, we greatly improved this situation.

While these are fairly small details, in this way we improved the sharing of information and drove reforms forward.



A snapshot in "CEO Headline"

**Q: How did you communicate externally?**

**Ito:** I took an approach in which we did not disclose information but shared it. When holding press conferences, we prepared Q&A materials for anticipated questions. This included answers to be used when asked about certain things, so

it was fine to discuss the content. However, the people in charge of IR told me not to talk beyond this content or give away too much. This makes sense when there is not enough time, but it seemed strange to take an approach of not saying anything unless asked. So, I decided to talk openly about matters that we were able to share.

The reasoning behind this approach was that we were in a crisis situation when I was appointed, and that I had listened to the opinions of analysts and shareholders and agreed with them. It is natural that people who have invested in us, are considering investing in us, or are giving advice to investors want to know about the state of our business. It would be strange to only give them the minimum of information. Rather, bad news had better shared.

In fact, after I became President & CEO, there was flooding in Thailand in 2011. Thailand was our main overseas business location, so this was a big negative for the Ajinomoto Group. We had about 20 plants in the country. People were naturally worried about the impact of the flooding. To address



Financial results briefing for analysts and institutional investors

this, we provided investors with information about the status of our plants. Out of the 20 plants, 18 were still operating and two had stopped. We received great praise for sharing this information before we were asked to.

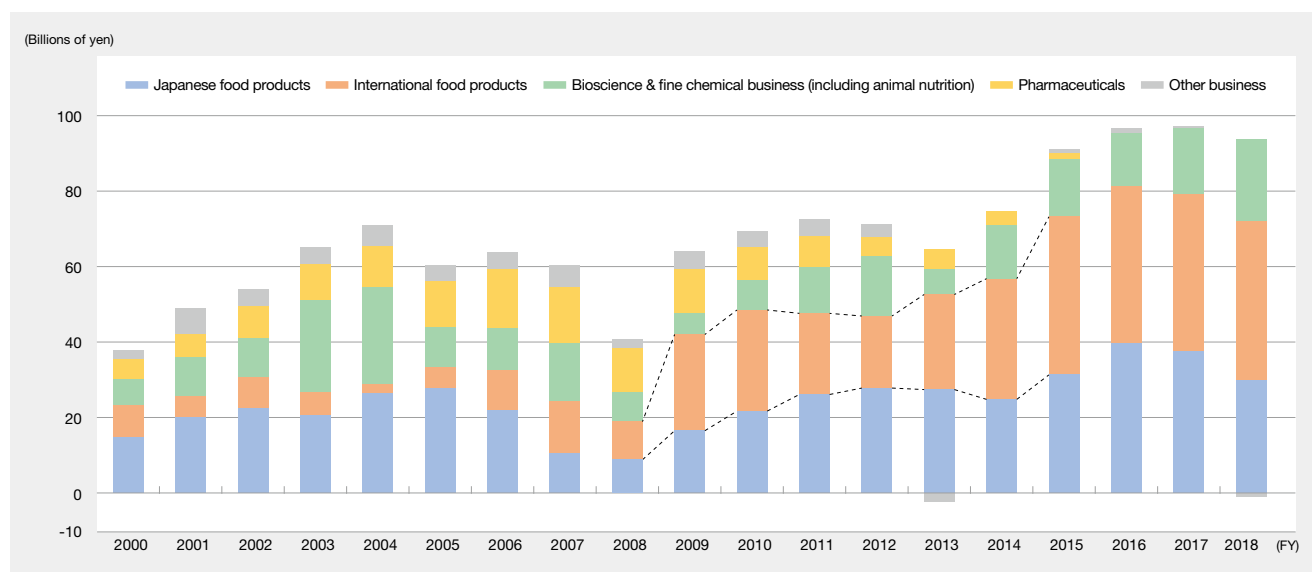
**Q: You have placed great importance on communicating openly and fairly.**

**Ito:** Anybody can give an answer when asked a question. I remember having a conversation with a person from another country about what is important for building relationships based on trust. It is information. How transparent is the exchange of information? For example, in my house I have a two-month schedule of meals on our refrigerator, which includes whether I am planning to go out to eat on a certain day. Naturally my meal schedule is not secret company information. However, while I write clearly who I will be going with, I try to make the location as vague as possible, so that later on, my wife won't be able to pester me to take her there too.

**Q: And you advanced reforms based on these relationships of trust?**

**Ito:** That's right. Sharing our management direction also meant we had to have a clear idea of the roles and responsibilities of management. Up to that point, Ajinomoto Co., Inc. had formulated its management plan by combining the plans of each of virtual company. This meant that the responsibilities of the top management team were vague, and I felt that decision-making was unclear. I thought that it would better if top management created a strategy framework for the entire Group and then each business division independently formulated their own plans based on this framework. It is important that top management leads the way in creating management direction with executive team members, and this is the job of the President & CEO.

Figure II-1: Overall business results (FY2000-2018)



Note 1: During this period, there were reclassification of segments, and changes made to the content of segments, accounting systems, and other items, so these figures are provided to give a general idea of overall business results.

Note 2: Up to FY2015, figures shown are for operating profit and from FY2016 onward they are for business profit.

**Q: Before I ask about individual measures, I would like to take a bird's eye view of your time as President & CEO. You realized a V-shaped recovery following losses and then smoothly grew sales and profits to high levels by FY2015. However, in FY2013, both sales and profits temporarily fell.**

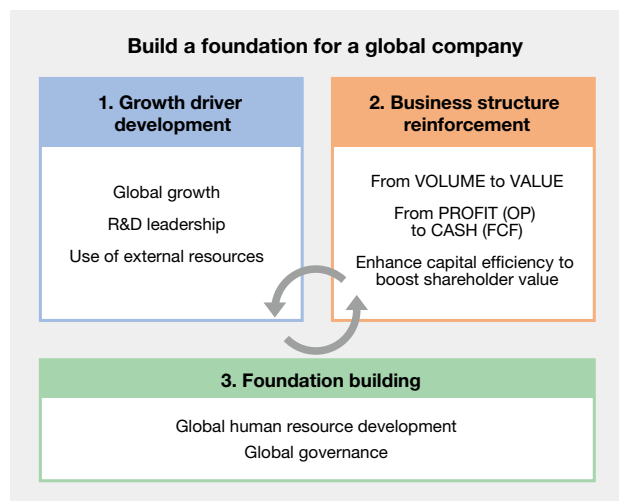
**Ito:** I think things went roughly according to plan in terms of both the numbers and the actual content of our businesses. The slump in FY2013 was a lull made necessary by structural reforms, and we had prepared for it. Our plan to reduce the ratio of bulk business such as animal nutrition meant that for that year, the business actually made zero profit. It probably turned out that way because we said it would be fine if it happened. The sale of Calpis Co., Ltd. and the fall in the pharmaceuticals business had also been anticipated. Instead, we focused on expansion of our consumer business overseas, putting effort into Japanese food products, Ajinomoto Frozen Foods Co., Inc. and Ajinomoto General Foods, Inc., and these measures led to growth later on.

### ■ Specific measures of FIT & GROW with Specialty – Focus on consumer business, business headquarters system, and spinning off companies

**Q: Following the key principles of “growth driver development,” “business structure reinforcement,” and “foundation building” in the FY2011 - 2013 Medium-Term Management Plan, for the FY2014 - 2016 Medium-Term Management Plan you hit upon “FIT & GROW with Specialty.” You advanced structural reform (FIT) and growth driver development (GROW) with a focus on specialty.**

**Ito:** We decided that our macro-direction would be to shift away from a weighting towards bulk business. Although the BtoB market is big, there were a number of competitors emerging from China as well as from South Korea. So, it would

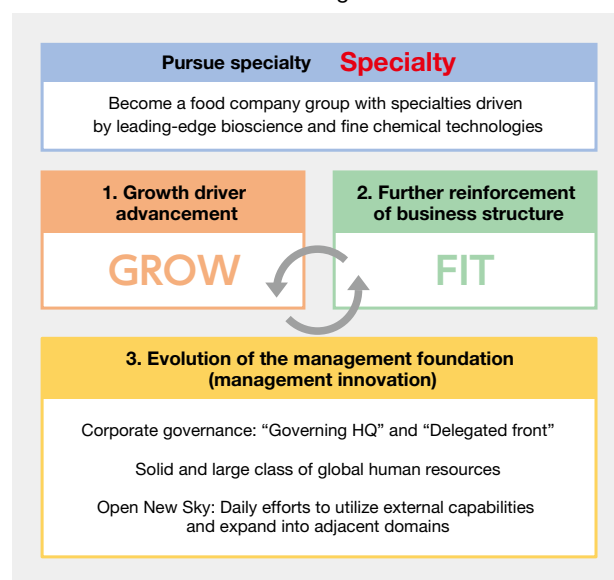
Figure II-2: Key principles of the FY2011 - 2013 Medium-Term Management Plan



be difficult to work freely and I felt it might be a problem to have this area as our core business. Although this is also true of other businesses, if a product does not have any distinguishing characteristics, competition will come down to a price war. In our bulk business in particular, we were creating physical substances such as lysine which are difficult to differentiate as it does not matter if they taste good or bad. Therefore, our major goal was to remove the weighting towards bulk business and achieve a business structure that we could control. We judged that price competition was not a good fit for us.

Based on this, we set our key principles in FIT as “structural reform centered on a shift from commodities to specialty” and “enhance capital efficiency to boost shareholder value and return on equity (ROE),” and our key principles in GROW as “R&D leadership” and “global growth.” We also started to transform the culture of the Group by practicing governance that accounted for globalization, developing and diversifying human resources, “using external capabilities,” and “expanding into adjacent domains.”

Figure II-3: Key principles of the FY2014 - 2016 Medium-Term Management Plan



**Q: The year after you became President & CEO, the Company transitioned from a virtual company system to a business headquarters system. Was this also to strengthen internal communications?**

**Ito:** After we started using a virtual company system, the barriers between companies grew to the point where you could say that each company was not aware of what the others were doing. In such a situation, the disadvantages outweigh the benefits. A virtual company system might work if one business bears little relation to the others, such as TVs and refrigerators, but it was not appropriate for the Ajinomoto Group, which uses amino acids in every business. It got to the point where the achievement of research into amino acids technology could not be applied in other areas such as food products. In cases where we need to focus on the swiftness and agility of decision



making, it is better to establish a scale of operations and make it into a separate company, like we did with Ajinomoto Frozen Foods Co., Inc.

**Q: It seems like your policy of strengthening collaboration transformed the Company.**

**Ito:** That's right. It was the same with R&D structure. At first, we had over 10 R&D institutes, so we took a focused management approach that brought together small research institutes to make larger ones and specified the areas in which we were aiming to develop. Up to that point, it seemed that individual researchers were performing research in various areas on their own, and it would be bad if they went too far, so we decided to clarify the scope of research. We worked to bring them together and collaborate. We created an environment into which each researcher could bring the different information



R&D conversations

they possessed and utilize it to create new knowledge and value. We have personnel with a variety of areas of expertise and by combining the expertise of one researcher with the different expertise of another, we often generate new ideas.

For example, in frozen foods, where I worked from the 1980s into

the 1990s, we had a structure comprising Ajinomoto Co., Inc.'s Frozen Foods Department and the Ajinomoto Frozen Foods Co., Inc. companies in each region (Kanto, Chubu, Shikoku, and Kyushu), and they were mainly focused on production<sup>1</sup>. This means that under normal operations, there is a divide between development and manufacturing. However, when it comes to creating a product, we cannot achieve anything good or quickly unless the business department personnel, experts in facilities and machinery, researchers, and others can work together. Therefore, they would collaborate on a project basis. People involved in product development often work in this way, but I wanted us to be able to do it on an organization-wide level, so after becoming President & CEO I advanced structural reforms.

**Q: Furthermore, you spun off the animal nutrition and pharmaceutical businesses, which were facing issues, as new companies. Was there any opposition to these moves?**

**Ito:** Recognition of the state of these businesses was already shared, so in the case of the pharmaceuticals business, we had a request to spin off from the departments involved themselves. This would enable them to combine as a single company. Also, it would have been difficult to restructure the animal nutrition

business while it was still a part of Ajinomoto Co., Inc. For example, operating joint ventures when you are not a separate company is very difficult. For these reasons, we took various steps to spin off the businesses and enable them to operate more freely.

**Specific measures of FIT & GROW with Specialty – Promoting external partnerships and realizing “with Specialty”**

**Q: I think that the active pursuit of external collaborations, such as M&A, alliances, and joint research projects, became a big feature of the Group from your presidency onward and marks a clear shift of direction.**

**Ito:** Even within Ajinomoto Co., Inc., people involved in technological fields had already grown beyond developing everything in-house and it was normal for them to announce research results externally and work for short periods at other research institutes. There were even employees who had been temporarily working at research institutes in Russia.

There have been lots of cases where the creation of new things has required some kind of stimulus to provide that moment of inspiration. I think it is better to bring in and mix information from a variety of sources. We implemented external collaborations, personnel allocation, and other measures based on consideration of how we could make this happen.

Looking back, although there was opposition to the various measures I implemented, this came from people who did not understand or did not have the right information. That was fine, because if I could make them understand, then they would become supporters. With this in mind, the amount of information you have is very important when advancing your businesses. In other words, you need to have curiosity and a broad interest in the world. People who can push ahead with ambition and a desire to try new things generally find the information and knowledge they need comes naturally.

While our collaborations with companies such as Kao Corporation and Bridgestone Corporation have produced relatively few specific results, they have proven valuable in providing experience and realizations to the employees involved regarding what it means to mutually share and understand information. While Kao Corporation makes cosmetics and we sell ingredients, our collaboration leads to action along the lines “if we work together, couldn't we make this substance?” Also, although our joint research and development with Bridgestone Corporation has come to a halt due to cost issues, we successfully made rubber for tires from proteins. This means that we are able to offer an alternative to rubber from trees.

This kind of experience and sensibility towards information is important for realizing specialty. When creating new products, creating something that already exists is meaningless.

<sup>1</sup> In October 2000, all divisions were amalgamated to create the current Ajinomoto Frozen Foods Co., Inc.

It is important to be useful in a way no one else can, and how you differentiate a product is also a core of marketing.

**Q: It appears that your experience in marketing was at the root of promoting specialty.**

**Ito:** Exactly. You have to repeatedly differentiate. Ultimately, this is what the Ajinomoto Group Creating Shared Value (ASV) is. In other words, you should build your business on things that are useful to people. Society is a gathering of people so if you can provide something that many people like and think is convenient, then you will profit. For example, *dashi* soup stock is made by buying and preparing dried kelp and dried bonito flakes, but using *HON-DASHI*<sup>®</sup>, you can prepare it in one second. If a normal family wanted to make it from scratch, they would have to grate the bonito themselves and it would be expensive. If they use *HON-DASHI*<sup>®</sup>, they can save a billion seconds over a year. It is quicker, easier, and more convenient and there is no waste. This represents specialty to the people who use *HON-DASHI*<sup>®</sup>. Greater benefit is important.

**Q: I feel like the “expand into adjacent domains” part of the plan also had a marketing perspective.**

**Ito:** The origin of “expand into adjacent domains” was the feeling that we could do something to create more business opportunities, but we did not. For example, why did *Cook Do*<sup>®</sup> have to be just a seasoning for Chinese dishes while the markets for Japanese and Western dishes are so close? During development, people had been constantly told that *Cook Do*<sup>®</sup> is a seasoning brand for Chinese dishes so they thought that it could only be used for Chinese dishes. However, we launched *Cook Do*<sup>®</sup> *Kyo-no Ohzara*<sup>®</sup> based on the concept that it would be good to be able to prepare Japanese dishes in the same simple way. This is a good example of expansion into an adjacent domain. The people responsible for *Cook Do*<sup>®</sup> had always treated it as a seasoning brand for Chinese dishes so they were against anything different. The people above them had just accepted this, so nothing had changed for 30 years. This was also true for *Ajinomoto KK Consommé* cubes. Why do these cubes only have to be used for consommé? Consumers were already using them for different purposes, such as Western

hotpots or Japanese Nabe dishes. This led to the development of *Nabe Cube*<sup>®</sup>.

In this way, we were limiting ourselves. We could only think that something had to be a certain way just because the person in charge said so. Doesn't it make work boring? However, there is also an individual element to this. Out of 10 people, only two or three have the creativity that means they find just sticking to the task they have been given boring and start to consider things like new applications. These kinds of people possess a wider range of information.

**Q: I understood that specialty is not just about new technology, and you must have seen R&D as one of the core elements.**

**Ito:** R&D was an important part of the measures we implemented to create specialty, and this included combining the scattered research sites that I mentioned previously. The Ajinomoto Group has a focus on R&D that is unusually strong within the foods industry, and this can be seen in the number of researchers we have and the globalization of our research structure. However, you need to do unusual things if you want to differentiate.

Even so, this does not mean that research divisions are untouchable or are overly exalted within the food products business. Research and development have to fit the market and our customers, so we cannot ignore marketing, sales, and production. On the other hand, AminoScience involves a process from research through to the creation of a physical substance, so it is a little bit different in nature. Although these are separate fields, we transfer personnel between them to enable them to experience a different area of expertise and to create opportunities to expand their interests and horizons.

**Q: I've heard that out of all the Presidents in the Company's history, you are notable for how much you have interacted with researchers.**

**Ito:** While there were times where I used conversations with young researchers to communicate our approach to R&D in terms of overall strategy, the main reason I spoke to them was because I wanted to hear about the most recent developments. I participated in periodical R&D reporting meetings, but just receiving reports on things that have already been completed, was not very exciting. I really wanted to hear about what was happening at an earlier stage. What really left an impression on me is that although these researchers are young, many of them did not hesitate to explain things to me that I could not understand. It seems like we have an organization that gathers people who think the technical terms are understandable for everyone. That was why I also did not hesitate to ask them, “Besides the results, what value will be created by this?”

**Q: Do you think that a fair amount progress has been made with specialty in R&D?**

**Ito:** In regard to seasonings, I feel we have achieved about half of what we need to do. There is an extremely wide range of structural



*Cook Do*<sup>®</sup> *Kyo-no Ohzara*<sup>®</sup>



*Nabe Cube*<sup>®</sup> *Tori-dashi Uma-shio*

elements that can create deliciousness. For about half of these, our research has enabled us to use them to “create deliciousness” but there are still more of these elements to explore. We are continuing to deepen our research efforts in this area. While we have been fairly successful in pursuing the physical elements that determine deliciousness, such as texture, taste, and flavor, there is still a lot we do not know. For example, sometimes adding a tiny bit of something bitter makes a meal delicious. Alone, it is not very tasty but as part of a mix it is delicious. The attempt to work out why this should be is tough but very interesting.

In regard to the use of amino acids in the pharmaceutical peripherals field, we have made reasonable progress and are developing products that contribute to health and well-being through the use of peptides and proteins. In the past, we used protein production technologies to target digestive organs such as the stomach, but we are now using them for development in different fields.

I think that in foods and pharmaceutical peripherals, we are successfully leading the way.

## ■ ASV comes from the founding of the Group

**Q: In the past 10 years, I think the formulation of ASV and the internal promotion of an approach in which the Ajinomoto Group works to continue being useful to society through its business activities marks a big change. What are your thoughts on this?**

Figure II-4: ASV (The Ajinomoto Group Creating Shared Value)



**Ito:** Earlier I said that ASV was about repeatedly building a business by providing products that are beneficial to people and different from anything else, and this is what we have been doing since our founding. During our 100th anniversary, when we reconsidered what it is that makes Ajinomoto Co., Inc. unique, we constantly came back to Dr. Kikunae Ikeda, who discovered umami. Although Dr. Ikeda had eaten a lot of meat while studying in Germany, he actually had a small build. Most Germans were a lot bigger than him so he would have lost in a fight. This made him realize that he needed to improve people’s builds and nutrition. However, it was during the Meiji period in Japan, so people did not eat that much meat. They had a very simple diet and Japanese food was not very delicious. So he looked to find a way to improve nutrition and health of Japanese people by making their simple diet more delicious and when he researched umami in boiled tofu, he discovered glutamic acid.

**Q: So the Company has always tried to create social value since its founding?**

**Ito:** Yes. If health can be achieved through delicious foods, it benefits the customer, and as a result, we can obtain revenue. This concept is identical to CSV (Creating Shared Value). Economic value is tied to the creation of social value. In that sense, we have always been doing the same thing.

The typical example in Japan would be packaged foods. You could make sauce, ketchup and mayonnaise by yourselves, and they started to be manufactured in the Meiji period. In the olden days, everyone made soy sauce and miso paste by themselves too.

In Europe, it’s consommé. Why were bouillon cubes developed? It is because during the industrial revolution many factories were built, and women also needed to work to fill labor shortages. This meant that wives had less time to prepare food. It takes about three hours to boil your own bouillon which was just not possible. People needed something to be done about this situation, which led to the development of the bouillon cube. Three hours of work could be achieved in three minutes using just a cube. This kind of innovation has always been there.

Looking at Ajinomoto Co., Inc. products, we have *HON-DASHI*®, which provides a *dashi* broth made of dried bonito flakes and kelp, and *Pure Select*® Mayonnaise, which saves you having to mix oil, eggs, and vinegar. Also, if a product is the same as others, then it ends up needing to be cheaper, so we always try to enhance a product’s deliciousness.

**Q: What was the reason for the establishment of ASV instead of CSV?**

**Ito:** We replaced “C” which represents “creating” with “A” because we had already been doing this continuously since our founding. Therefore, we applied the Ajinomoto Group Creating Shared Value (ASV). Our thinking behind this was that ASV represents the foundation of our business activities, and we try to develop even greater nutrition and health from this. We are actually tackling issues such as overnutrition in developed



countries and undernutrition in developing countries. However, no matter what we do, we tend to focus on health and nutrition. ASV is what we do, and includes the standard products that people are eating every day, so it is important that we tirelessly strive to make our products better.



Environmental commercial (Ajinomoto Co., Inc. website)

**Q: Doesn't this also connect to "Eat Well, Live Well." in the Ajinomoto Group Philosophy?**

**Ito:** And following that, the planet also has to be well. Producing 500,000 tons of *AJI-NO-MOTO*® a year (FY2010) from kelp would result in the world's kelp resources disappearing in a month. We produce it using a wide variety of flora and fauna and constantly striving to procure sustainable ingredients is a key part of our work. We have to develop in a way that maintains natural capital and conserves biodiversity.

## The importance of food

**Q: What is your view of the Ajinomoto Group?**

**Ito:** We are a group that can contribute in a field which is essential for humanity. Food is truly one of the most important things. If you do not eat, you will die. By eating food, humans rebuild cells that gradually break down. It is said these cells replace themselves every three months. I would like both our employees and consumers to be aware of this. If they are not, then they will think we just eat because we are hungry. Think like that and you will end up just eating cake and drinking alcohol. This is the foundation of my personal philosophy. In fact, the last thing I wrote in my My Personal History series (published in The Nikkei in March 2019) was "You are what you eat<sup>2</sup>."

**Q: Doesn't this mean that if you just take nutritional supplements you will be fine?**

**Ito:** Not at all. For humans, when it comes to food, the most important thing is communication. Only humans share food. Even ape species do not share their food, even when they eat in groups. That is why we share at events like weddings. Even if we eat different things, we still eat together in the same space. Tables are only one or two meters wide so that people can see

each other's faces and communicate while they eat. If they were any wider, we would not be able to talk. Human eyeballs have white parts so that we can express ourselves by moving our eyes, while in ape eyes, these parts are black. This means we can eat and talk together while expressing ourselves through our eyes. While this does not necessarily mean eating alone is bad, I don't think it would be good to go a whole month eating only by yourself. You would lose a part of your humanity. No matter how much digitalization progresses, if a guest from overseas visits you hold a dinner party and bring out good wine. Nobody would question why they have to eat together. Feeding people and eating together is at the very root of relationships. It connects people. Not just people, countries too.

**Q: It is the foundation for human activity.**

**Ito:** To go further, it also connects us to our heritage. Also, if you think about how the Group is contributing through our products, we are creating new lifestyles, culture, and customs that no longer assign fixed gender roles. One night you can buy something to eat, another night you can cook using *Nabe Cube*®. The time it takes to prepare food has shrunk by an incredible amount since the Meiji period. However, it does not just stop there—it is also expanding the scope of women's activities without a drop in the quality of meals. I think it would be good if everyone could experience just once how busy life was for a wife in the Meiji period. Try cooking in an old-fashioned kitchen which starts with kindling a fire.

Connect to our heritage, connect people, but at the same time create something new. Although things continue to change, there are also aspects that should remain unchanged. That's how humans are made. Both our bodies and our culture are continuously being rebuilt. As a company, the Ajinomoto Group



<sup>2</sup> An expression often used in Europe and North America. It originates from Jean Anthelme Brillat-Savarin, a French lawyer and politician who gained fame as a gourmand, who wrote in *Physiologie du Goût (Physiology of Taste)*, published in 1825, "Dis-moi ce que tu manges, je te dirai ce que tu es" (Tell me what you eat: I will tell you what you are).

is the same. While our employees gradually change over time, the brand itself remains and becomes stronger. Like university brands.

## ■ The next 100 years

### **Q: Please tell us your thoughts about the future of the Ajinomoto Group.**

**Ito:** As I said before, at the time of our 100th anniversary I wanted to think about the next 100 years, but truthfully, it was not the time for that. While we also have specialty chemicals and other businesses, I want to focus about 70% of our growth on foods and pharmaceutical peripherals. We are a food company after all. They say that a balanced diet leads to a healthy body, so foods and pharmaceuticals are the same in principle and both are important. If possible, I want us to be a unique group of companies that works on a foundation of science to deliver amino acids technologies not found anywhere else on earth through foods. How far we can go with this depends on our efforts going forward.

### **Q: During your time as President & CEO, Ajinomoto Co., Inc. set a course towards becoming a global foods company with a focus on specialty. Is there anything in particular you feel about this?**

**Ito:** I feel that we are moving a little too slowly to become a GGSC (Genuine Global Specialty Company). The world is steadily changing and if we carry on at our current pace, I don't think we can achieve our goal in the next 100 years. We need more speed. We need to look further into the future, not just in terms of external partnerships and M&A but also in internal research and development and other areas. Our competitors are gradually expanding and growing beyond being just food companies. Big tech platforms and the like also have overwhelming capabilities in terms of information, which I have repeatedly told is important. We need to speed up in regard to technological change, too. In my 2014 New Year's message "Speeding Up Towards Becoming a GGSC," I hoped for a sense of speed. To achieve our goal, I think we need intuition backed by information and experience. We also need imagination to work out what to do with the information we gain.

# 2

## Becoming a Solution-Providing Group of Companies for Food and Health Issues by Adapting to Social Change Driven by Digital Transformation and the Adoption of the SDGs

— A Dialogue Between President & CEO Takaaki Nishii and Keio University Professor Masahiro Okada



President & CEO Takaaki Nishii

Professor Masahiro Okada

Born in Nara Prefecture in 1959. Joined Ajinomoto Co., Inc. in 1982. Served in positions including General Manager of the Consumer Foods Department at Ajinomoto Frozen Foods Co., Inc., General Manager of the Human Resources Department at Ajinomoto Co., Inc., and President of AJINOMOTO DO BRASIL INDÚSTRIA E COMÉRCIO DE ALIMENTOS LTDA. while also a member of the Board & Corporate Vice President of Ajinomoto Co., Inc. Appointed as Representative Director, President & Chief Executive Officer of Ajinomoto Co., Inc. in June 2015 (current position).



Born in Hokkaido in 1962. Joined Honda Motor Co., Ltd. in 1985. Completed a master's course at the Graduate School of Business Administration, Keio University in 1993. After working at Arthur D. Little Japan, Inc., became a fellow of MUSE Associates, LLC. in the U.S. Gained a Ph.D from the Ohio State University in 1999 and became a lecturer at the Graduate School of Business Administration, Keio University. Promoted to assistant professor, associate professor, and then to his current position of Professor.

President & CEO Takaaki Nishii, who was appointed in June 2015, bases his judgements on the clear criterium of “be a global top 10 class food group of companies,” and achieving this has been set as a management goal for FY2020. Inheriting and evolving the concept of shifting to specialty devised by Chairman of the Board Masatoshi Ito, he aims to make the Ajinomoto Group into a GGSC (Genuine Global Specialty Company) through a policy of accelerating response to changes in the business environment, such as digital transformation. He invited Keio University Professor Masahiro Okada, who has an intimate knowledge of business strategy based on CSV (Creating Shared Value), for a dialogue exploring the Ajinomoto Group’s core competencies, its achievements over the last 10 years and future growth strategy, and the Group’s challenges and aspirations based on a medium-term management plans centered on evolving ASV.

### ■ What is the Ajinomoto Group’s competitive edge (core competencies)?

**Professor Okada (“Okada” from here on):** I specialize in management strategy and I would like to ask about a variety of topics, including your initiatives over the past 10 years,

outlook for the future, as well as ASV. First of all, regarding the Ajinomoto Group’s competitive edge, the media mentions aspects like technologies for leading-edge bioscience and deliciousness, and marketing that is adapted to each region. What is your impression?

**President & CEO Nishii (“Nishii” from here on):** Our

leading-edge bioscience and fine chemical technologies include technologies for the development and application of materials based on research on the functions of amino acids. We apply these over a broad range of business areas, such as foods, healthcare, and life support. For example, we discovered that glutamic acid, the substance that prompted the founding of the Ajinomoto Group, was an umami ingredient, so we subsequently developed and launched the umami seasoning *AJI-NO-MOTO*<sup>®</sup>. We have also developed products with added nutritional functions using BCAA<sup>1</sup> that effectively help athletes recover from fatigue. Furthermore, amino acids also “adjust the body’s functions.” For example, L-DOPA is an amino acid used in pharmaceuticals and if a person does not have enough of it, their neurotransmission functions worsens. Glycine, which is the main component of *Glyna*<sup>®</sup>, helps people to sleep more deeply (see footnotes on p.29). Also, it is not generally known, but we use technology derived from research into the reactive properties of amino acids and their applications to develop interlayer insulating materials for semiconductor packages, which are contributing to the evolution of IoT, so specialty chemicals is also one of our core businesses.

Another competitive edge is marketing capabilities that enable us to provide tastes which are thoroughly in line with local sensibilities. In regard to consumer foods, we offer product development and sales channels that are adapted to local food cultures and in our BtoB ingredients business, we are able to work together with customers to solve their problems.

These two areas are our core competencies and have been at the heart of the Group since our founding.

**Okada:** The other day I visited the Client Innovation Center (CIC, see p.51) in Kawasaki and saw your full lineup of amino acid bioscience and fine chemical technologies. General consumers like myself have an image of the Ajinomoto Group as a food company, particularly as the producer of *AJI-NO-MOTO*<sup>®</sup>, but visiting the CIC completely changed my perception. I came to understand that the Ajinomoto Group is using amino acids to expand in BtoB and BtoC markets based on a foundation of various technologies, and I came away with the strong impression that the Group is not just a food company.



The Client Innovation Center

**Nishii:** That’s right. I also think we are a very unique company. We constantly review the fields in which we apply our business portfolio and strategy in accordance with changes in the external environment while keeping a central focus on how these connect to our core competencies. While our main focuses are consumer foods, amino acids for pharmaceuticals, electronic materials, and animal nutrition, we will alter these focuses in accordance with changes in consumer and customer needs depending on the times. We think that being able to adapt to various business areas through our two core competencies is important for our sustainable growth.

## ■ Reforming Business with a Focus on the Shift to Specialty

**Okada:** Based on these core competencies and unique attributes of the Group that we just talked about, I would like to ask about the management direction Chairman of the Board Ito and you took over the last 10 years. Out of the things that Chairman of the Board Ito and yourself tried to do, how much did you manage to achieve and what still needs to be done in the next 10 years?

**Nishii:** Well, first of all, I think it will be easier to understand if I talk about *A*-dvanice 10, the medium- to long-term plan leading up to the last 10 years. The theme of the plan was “the 21st century is an amino acid century,” and we aimed to build our business portfolio along two axes, one of which involved being an “amino-acid driven company,” including in regard to pharmaceuticals, and the other of which involved the globalization of our food products business. We positioned Japan food products as a stable revenue-generating business and set overseas markets as an area for growth investment.

You could say that Chairman of the Board Ito’s approach of becoming a “Genuine Global Specialty Company (GGSC)” and a “global top 10 food company” put a sharper focus on the food products and advanced pharmaceutical peripherals businesses targeted in *A*-dvanice 10. In other words, in order to respond to the expectations of stakeholders, he used business scale and efficiency, growth areas, and specialty in terms of added value as yardsticks for making judgements and shifted focus from the former core businesses of drug creation and animal nutrition to growth in overseas food products.

When Chairman of the Board Ito was appointed President & CEO, profits were being generated by the Japan food products, Japan pharmaceuticals, and animal nutrition businesses, and healthcare in the advanced pharmaceutical peripherals field was barely making a contribution. Now, profits from animal nutrition have shrunk significantly and the pharmaceuticals business has been reorganized as an

1. Branched Chain Amino Acids, which are the three amino acids valine, leucine and isoleucine. High concentrations of these amino acids are found in muscle tissue and they are known to build protein mass in bodies. They are used as an energy source during exercise.



equity-method affiliate. The business profit of the AminoScience business<sup>2</sup>, which now accounts for 25% of overall profit, derives from new businesses we have been developing through the pursuit of specialty over the last 10 years. These businesses are mainly amino acids for pharmaceuticals; the custom development pharmaceutical peripherals business, which is a Contract Development and Manufacturing Organization (CDMO); and the specialty chemicals business, which includes electronic materials. These are the areas that have changed the most over the last 10 years. In the food products business, we sold our beverages business in Japan and stabilized earnings in our domestic operations through the seasonings and packaged food products, frozen foods, and coffee businesses. We have vastly grown our overseas food products business, including in the emerging countries we have defined as the Five Stars and the Rising Stars, and it is now our biggest business. As a result, although we were in a difficult situation in 2009, recording a consolidated operating profit of just 64 billion yen and almost no non-consolidated profit, current business profit is 97 billion yen and even if we account for a move to International Financial Reporting Standards, we have managed to increase annual business profit by 20 billion yen.

It has been 10 years in which we have improved business results through the concentration of overseas food products and businesses leveraging amino acid technologies in growth markets, while at the same time advancing structural reforms.

### **■ Aiming to become top 10 through increased efficiency and stable growth instead of rapid growth driven by the Five Stars.**

**Okada:** Could you explain a little more about initiatives in the Five Stars and the Rising Stars in the overseas food products business?

**Nishii:** In our FY2011 - 2013 Medium-Term Management Plan, in addition to setting the vision of becoming a GGSC from 2020 onward and aiming to become a global top 10 food company, we targeted four criteria – a consolidated operating profit of around 130 to 150 billion yen, earnings per share (EPS) growth ratio of 10%, return on equity (ROE) of over 10%, and a business profit margin of 10%. Overseas food products were positioned as a source of growth, particularly for realizing an EPS growth ratio of over 10%. Building on this, in the FY2014 - 2016 Medium-Term Management Plan onward, we positioned the Five Stars (see p. 39) as the leading countries in these efforts. We aimed to double or triple business profit in the Five Stars by FY2020 compared to the base year of FY2013. The Rising Stars are key markets we are cultivating from a medium- to long-term perspective.

**Okada:** Is North America one of the Rising Stars?

**Nishii:** When formulating the FY2014 - 2016 Medium-Term Management Plan, sales in our North American frozen food business were just shy of 10 billion yen and it was still taking baby steps. We started the business in 2000 by acquiring a small

local plant. The change in approach and scales came in April 2015, when we acquired and consolidated Windsor Quality Holdings, LP, launching a full-scale effort to make it into a global business.

**Okada:** You have returned to the head office after serving as President of a Brazilian subsidiary. How was Brazil positioned when you were there and over the last 10 years?

**Nishii:** AJINOMOTO DO BRASIL INDÚSTRIA E COMÉRCIO DE ALIMENTOS LTDA. was positioned as one of the Five Stars and its mission included strengthening our consumer food business in Latin American markets by further strengthening collaboration with AJINOMOTO DEL PERÚ S.A. I was President of the subsidiary when we were asked to double our business by 2020 under the FY2014 - 2016 Medium-Term Management Plan.

**Okada:** What was the result?

**Nishii:** We didn't make it quite far enough in terms of figures. While we had to realize an average annual growth rate of 15%, from around 2015, top line growth began to slow, and we didn't reach the target. However, in terms of profit, we realized EPS growth of 10%, so it has definitely become an engine for growth.

**Okada:** Will you continue to pursue a position in the global top 10?

**Nishii:** In FY2010, the year before we targeted a top 10 position, our operating profit was 69 billion yen. This fiscal year we are looking at 97 billion yen, so the distance to our target of 130-150 billion yen is shrinking. Although changes in the business environment have shifted our course to put focus on efficiency and stable growth, we will continue to aim to become a global top 10 class food company and use this as a waypoint towards our eventual goal.

### **■ 2015 as a Turning Point**

**Okada:** In preparation for this dialogue, I had a look at the share prices of various food companies. Excluding Unilever N.V. and Nestlé S.A., a lot of food companies like Ajinomoto Co., Inc. and Danone S.A. previously had share prices of around 1,000 yen and rose to the 2,700-2,800-yen level around 2015, but have been gradually falling since then. Is the decrease in growth in the Five Stars you mentioned previously related to the slow economic growth in Asia? Do you recognize 2015 as a turning point?

**Nishii:** I agree that the fall in food company share prices and growth in emerging markets marked a turning point. Following the 2008 global financial crisis (the Lehman Shock), I think a lot of financing flowed into the food industry, which offered stable growth and strong potential in emerging countries, and

2. Currently the AminoScience Business contains two business areas: healthcare and life support. Healthcare comprises the six businesses of amino acids for pharmaceuticals and foods, bio-pharma services, sports nutrition, direct marketing, *AminoIndex*®, and personal care ingredients, and life support comprises the animal nutrition and electronic materials businesses.

this is linked to the rise in share prices up to 2015. You can see this by looking at indicators such as price-earnings ratios at that time, which were extremely high. Sometimes 30 times as high. One of the factors that started the decline since then was a greater focus on IoT-related industries as a strong sector for investment. From around 2010-2011, the spread of 4G (4th-generation mobile communication system) accelerated and these industries started to realize extraordinary growth that was driving the global economy, so investment began to shift. Another factor was the start of a slowdown in the growth of companies in the foods field, including personal care-related businesses. I think one of the reasons for this was the changes in lifestyles realized by digitalization and networking. In other words, the power of mass brands began to erode. Therefore, 2015 was a turning point for a number of different reasons.

Ajinomoto Co., Inc. was unable to overcome these macro-changes so growth began to slow in our overseas business, and our share price declined from the 2,700-2,800 yen level.

## ■ Maintaining growth by responding to the two major trends of digitalization and sustainability

**Okada:** Do you think the Rising Stars will be future growth drivers?

**Nishii:** Although it is important to cultivate emerging countries, there are major trends that are even more pressing. We think the changes brought by these trends are generating new markets in advanced countries and in Asia, which has already seen a certain amount of growth. One of these trends is digitalization and urbanization. This is particularly striking in the beer industry, in which craft beers have been gradually eating away at the big national brands. Before digitalization revolutionized distribution, these minor brands were not found in supermarkets so people who wanted to buy the beer would have to search around. However, e-commerce has enabled people to search for and order these beers digitally.

Another major trend is that consumers have become greatly segmented. The representative example is the millennial

generation, whose members tend to be turning towards things that fit with their lifestyles and values focused on sustainability and naturalness, and approaches that are considerate of the environment, such as the sharing economy, compared to previous generations who tend to aspire to beauty and wealth.

These two trends – the growth of small-size markets driven by digital trends and the diversification of consumer values such as an emphasis on sustainability – have most noticeably started occurring in advanced countries, particularly the U.S. They then spread to major cities in emerging countries very quickly, such as Bangkok in Thailand and Jakarta in Indonesia. This is a sort of change that cannot be seen by just looking at average figures, such as a GDP per person of 3,000 dollars.

**Okada:** Did you judge that responding to these trends is a higher priority than cultivating emerging markets? I often go to Africa for research, so I might be a little biased, but Sub-Saharan Africa currently has a population of over one billion people and it is thought that Africa will be the only market left that will see population growth beyond 2050. What do you think about this market?

**Nishii:** Looking at the period in which I will be managing the Group, up to 2025, and beyond that to around 2030, I think that growth driven by a population increase in Africa overall will not be enough to register an impact in terms of figures.

Of course our business base in Africa is important and we will maintain it. We will continue initiatives in collaboration with our partner company (Promasidor Holdings Limited), in which we acquired a 33% share through M&A, but in terms of growth, we think that we need to capture the two major trends of digitalization and sustainability or we may end up in a difficult situation. Similarly, India is also a big market and these two major trends will likely create change in major cities, but we do not have a solid base in the country and the competition is strong. So, it has not been selected as part of our strategy to enter the global top 10.

**Okada:** Our entire conversation up to now really demonstrates your approach of putting a greater focus on specialty rather than competing through volume.

**Nishii:** Yes. We think our success will depend on the rapid establishment of middle-size businesses that will not become red oceans<sup>3</sup>. It is the same with BtoB. We shifted our strategy away from a pursuit of volume in simple materials before 2010 and ceded the space to Chinese competitors. Instead, we will establish businesses that directly focus on what customers want and need by leveraging material mixes and minor components with soft aspects such as functionality and quality.

Figure II-5: Sustainability initiatives (response to SDGs issues)



<sup>3</sup> A term used in the best-selling marketing strategy book *Blue Ocean Strategy* (2004). Existing markets where competition is fierce are "red oceans" (turned red from the bloody competition), so it is better to target uncultivated markets known as "blue oceans," where there is no competition.

**Okada:** I guess that your main customers will be people who are highly health-conscious and willing to pay for premium products.

**Nishii:** That's right. Former President & CEO Ito set the course away from development based on commodities and individual materials in bulk towards specialty in our overall business and I inherited the progress he made up to 2015, which included structural reform. This structural reform included moving drug creation to a joint venture with Eisai Co., Ltd. and making it an equity affiliate, closing plants that only manufactured commodities and switching to OEM in animal nutrition, and selling our French subsidiary in sweeteners. Through a series of measures, we considerably shrunk our commodities divisions.

## Asset light management and digital transformation – Changing gears in the shift to specialty

**Nishii:** However, to reach the global top 10, we have to further shift to specialty in order to continue growing sustainably. We have to further increase our level of specialty and overcome any hurdles in achieving this. We need to do this within the current medium-term management plan. Therefore, we must value the core competencies we discussed before while strengthening our focus on core businesses. We have decided on six key areas (sauce and seasoning, Asian frozen foods, QN [Quick Nourishment = nutritional and packaged food products], integrated food solutions [ingredients for food manufacturing and food service industries], healthcare, and life support [electronic materials]) and we are concentrating strategic investment in these areas. We will also work to shrink and withdraw from non-core businesses.

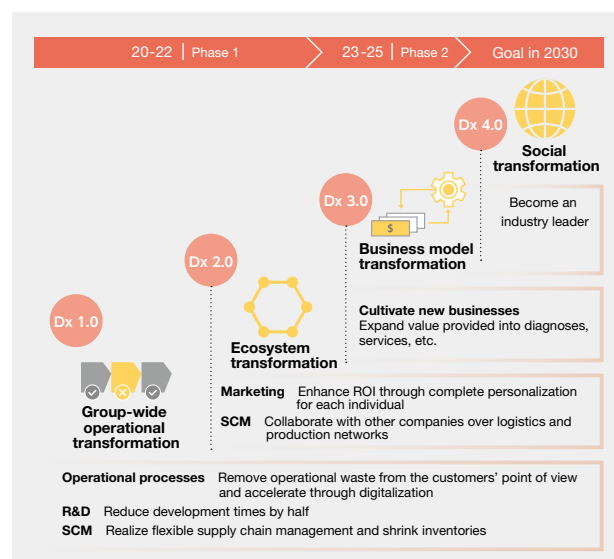
As for the reasons why our growth has slowed, I think we were also slow to respond to competition produced by digitalization. The level and speed of the competition is greater than before. We must focus on strategic areas and polish our strengths. If we focus on too much, we cannot win a competition that requires speed. We will not be able to take advantage of digital growth unless we concentrate on fields where we have a strong brand and can build a competitive edge by integrating technology and marketing, which are our core competencies. The next stage is to strengthen our focus, even in the food products business where we have already been realizing specialty.

Our main strategic direction has not changed, so we can still refer to it as FIT & GROW with Specialty, but I should emphasize that we need to change gears. We will start from FY2020 with the key phrases of “asset light management” and “digital transformation.”

**Okada:** From what you are saying, becoming global top 10 is not in terms of sales, but in terms of profits.

**Nishii:** I would also add efficiency. I want to raise return on invested capital (ROIC), return on assets (ROA), and by doing this, enhance return on equity (ROE). Unless we do this, we will not be able to increase corporate value.

Figure II-6: Digital transformation measures to create change



**Okada:** Does your next medium-term management plan include full-scale investment aimed at the long tail<sup>4</sup>?

**Nishii:** It does. As we are a food company, we cannot just launch miscellaneous products like craft beers. It is crucial that we develop small-size markets into middle-size markets to make business more robust. It would obviously be impractical to gather 10 of the 10-billion-yen businesses for establishment into a 100-billion-yen business headquarters, as we used to do, but we must find a way to establish five 2-billion-yen businesses and then grow these to 20 times their size. We must attempt this while using digital marketing to speed the process up. The most important points and biggest issues towards achieving this are how we cultivate digital human resources, improve work efficiency and create businesses for growth in parallel.

**Okada:** In that case, looking at traditional channels, such as existing supermarket channels, and online BtoC channels that offer a direct route to consumers, will the latter become more important going forward?

**Nishii:** It's looking that way. Even just within our business areas, such as seasonings and packaged food products, it was revealed that the ratio of food products sales in Japan through e-commerce last year was already close to 4%. This was 1-2% just two years ago, but it has already risen to 4%. The ratio of e-commerce for the Ajinomoto Group for the same period was 0.7%, so this 3% disparity is evidence that we are not capturing digital growth.

**Okada:** To expand e-commerce, will you need to make any adjustments with your usual retail channels?

**Nishii:** There are various ways we could approach this, so I

<sup>4</sup> An e-commerce term for an approach using a lineup of small retail volume products and increasing the sales of these products by dispersing them widely. As the use of IT has realized a dramatic leap in sales and management efficiency, it has become possible to market minor products that are not suited to mass production and sales.

don't think we will need to adjust too much. Physical stores have also had to incorporate digital methods and practice small-size marketing to survive, so we can ally ourselves with them. This does not mean committing exclusively to existing mall-style e-commerce platforms but carrying out digital marketing which includes convenience stores and the like are doing.

## ■ Accumulating “full spec” global talent over 10 years

**Okada:** Over the last 10 years, I'm sure the Ajinomoto Group has amassed things like capabilities, intangible assets, human networks, and relationships with companies, so out of these, what in particular do you think will prove the most useful over the next 10 years?

**Nishii:** The biggest thing has been growing the number of personnel who are beyond the level of just having experienced work overseas and can perform globally. The BtoB business we developed overseas was mostly in one market, so it was difficult to develop diversity and a multi-layered quality in our personnel. In contrast to this, in the BtoC business, the consolidation of a U.S. frozen foods subsidiary in 2015 had a huge impact. The U.S. business has a different sense of speed and sharpness compared to our Asian and South American businesses. The dispatch and return of people to and from that company and the information we exchange is extremely important to our future. While only four years have passed, consumer foods has made a bold strategic move and established a foothold in advanced countries.

Japan is also an advanced country, but unfortunately there is no growth and few new challenges have emerged. Our employees who have tested themselves in the U.S., a huge, advanced country, and have steadily taken in information and then returned with new capabilities are providing the Group with a great stimulus.

**Okada:** What about areas other than human resources?

**Nishii:** I think these 10 years have produced results in regard to taking on the challenge of full-scale globalization.

The development of our consumer foods business (flavor seasonings, etc.), in addition to the BtoB ingredients business, started in 2003, when the dissolution of our joint venture with Unilever N.V. gave us a free hand. In addition to the cooling off period, only 12 years have passed since then. During this time, consumer foods has grown to record profits of over 44.0 billion yen, and it has built our biggest portfolio. This profitability is extremely robust due to the addition of a business model for advanced countries like the U.S. in 2015, and I think it is a business that will contribute to future growth.

**Okada:** Establishing a foothold in an advanced country where you can amass human resources and information is a big deal. It enables you to multiply the synergies of the technology and alliance strategies symbolized by the CIC.

**Nishii:** Exactly. The theme of sustainability is similar. Although it originally started with the adoption of the Kyoto Protocol at COP 3, strangely enough, it turned to be COP 21 and brought



President & CEO Takaaki Nishii

things to a new level in 2015, when I mentioned was also a turning point for our business. At a United Nations summit that same year, the SDGs became central to global sustainability efforts and forced a change in gear. All companies that want to compete globally have to openly declare how they will make a contribution among the 17 goals and 169 targets by next year and set milestones with the aim of achieving these by 2030. The Ajinomoto Group declared our agreement with the SDGs in 2015 and we set specific, quantitative targets in our FY2017 - 2019 Medium-Term Management Plan. Furthermore, we have linked these to our financial and non-financial targets and are carrying out a trial and error process to achieve them as CSV=ASV. We will further advance these efforts in our next medium-term management plan. This will not involve doing only what is convenient for us. We will reset targets to achieve outcomes that are visible to people outside the Group and we will properly disclose our results. While we have paid a considerable educational cost to do this, it also provides deeper knowledge from a human resources perspective and we can set KPIs.

**Okada:** What was it that resulted in a high educational cost?

**Nishii:** In FY2017, we plucked up our courage to set KPI and publish them in our Integrated Report and Sustainability Data Book, but we received stern criticism externally, including that they were difficult to understand and that they were not actual targets. This also became a tremendous asset.

We have been accumulating human resources who understand a vision like creating shared value, sustainability, ESG, and the reason for the execution of the Ajinomoto Group Engagement Survey for 34 thousand employees in 18 languages (see p.80) to spread the spirit of the corporate governance in the Group. We have also acquired talent that understands the importance of the clarification and documentation of rules through the GGP (Global Governance Policy, see p. 79), and the significance of clarifying organizational hierarchies and compensation systems. We have increased the organizational knowledge we need to act globally to a considerable level.



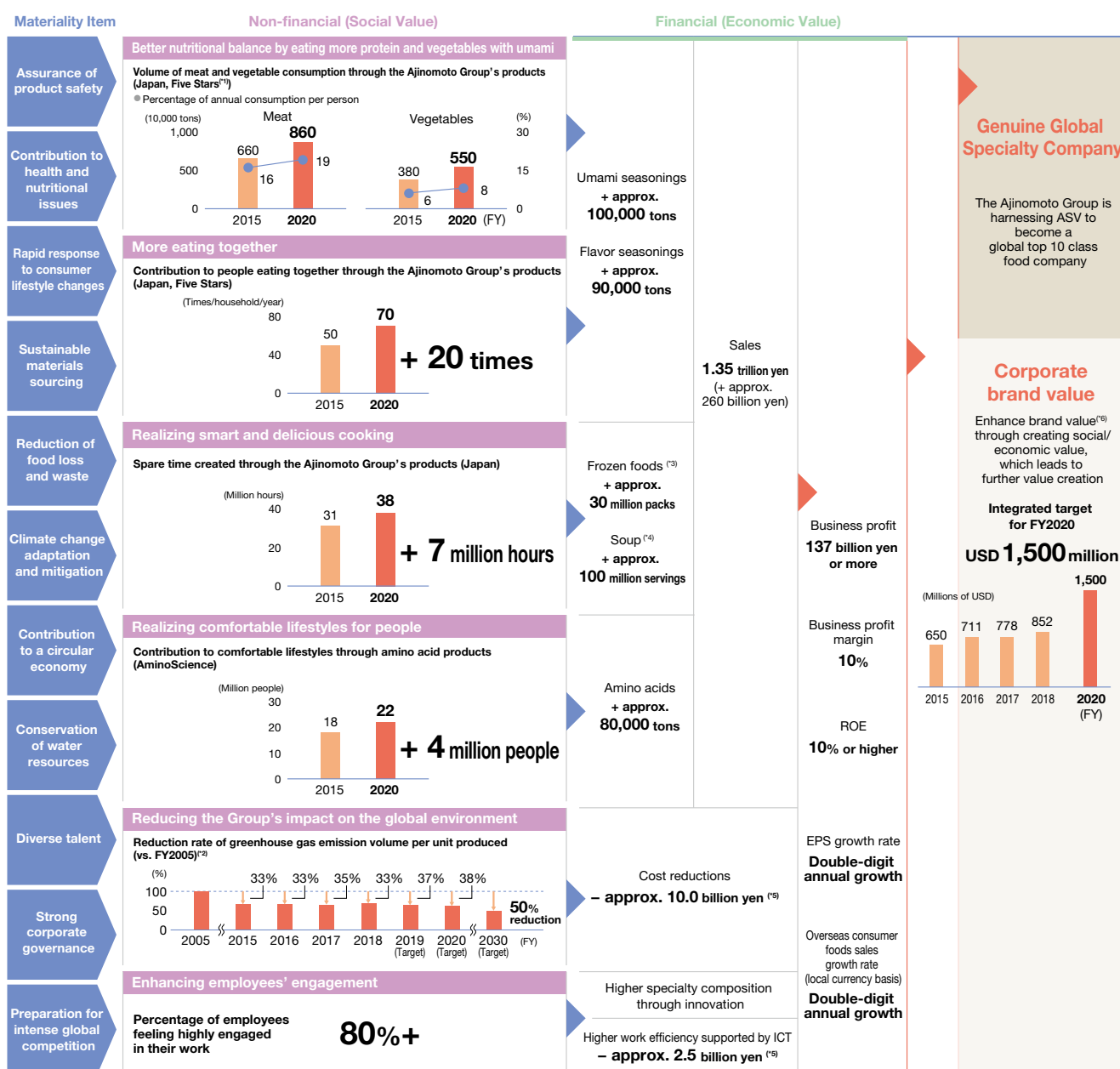
## Deepening the appeal of ASV – How are non-financial information and financial information connected?

**Okada:** The incorporation of sustainability into business strategy is one of my areas of research and it is an extremely fascinating area. I think that your external communication of non-financial information, which includes measurable values from meat and vegetable intake volumes through to employee engagement, is very progressive. What are your thoughts about



Professor Masahiro Okada

Figure II-7: Non-financial/financial integrated targets



Note 1: (\*) Thailand, Brazil, Indonesia, Vietnam, and the Philippines

(\*) Additional targets have been set for renewable energy use ratio, fluorocarbon elimination, reduction of food loss and waste, securing of food resources and protection of natural environment including ecosystems and biodiversity, conservation of water resources, and waste 3Rs.

(\*) Counting only products for household consumers in Japan

(\*) Counting only cup soup products in Japan

(\*) -Cost reductions of 10 billion yen and 2.5 billion yen are FY2019 targets.

(\*) Evaluated by Interbrand, "Japan's Best Global Brands"

Note 2: Sales volume increases for umami seasonings, flavor seasonings, frozen foods, soups, and amino acids are comparisons over the period from FY2015 to FY2020. Increases in management indicators are comparisons over the period from FY2016 to FY2020.

Source: Ajinomoto Group Integrated Report 2019

linking financial and non-financial information?

**Nishii:** To give an example of this kind of linkage, for meat and vegetable consumption volumes, we linked the standard amount used in a meal made using our products to the desirable intake volume per person per day. Therefore, while it is based on hypotheticals, by working out a measurable volume, we show the amount we contribute to each country and region.

**Okada:** It is easy to understand how meat and vegetable intake volumes link to increased sales of seasonings, but it is a little difficult to understand how the other targets, such as spare time created, link to your food products in Japan and overseas, or AminoScience businesses.

**Nishii:** We have properly outlined how these are connected in our Integrated Report and Sustainability Data Book. We have also included figures, such as so many thousands of people used this product in regard to comfortable lifestyles and healthcare. It would be best if we could include context such as an increase in figures that users are saying are good, but in regard to eating habits, this is not quite possible.

**Okada:** I have been studying various papers, such as this one by some teaching staff from Harvard University (Robert E. Eccles and two others) titled “Capturing the link between non-financial and financial performance in one space.” In the paper, they write that in integrated reports, it is not enough to just include financial and non-financial information together, the relationship between them needs to be explained. This is because it makes it easier to understand and probably more appealing to investors.

**Nishii:** To show the linkage between financial and non-financial information, first of all, non-financial value is important. I’m sure you already know this, but when companies such as Nestlé S.A. and Unilever N.V. began to present their shared values, certification standards were created alongside these. Currently, the world’s biggest evaluation framework with regard to nutrition is the Access To Nutrition Index (ATNI) which was created in line with the Millennium Development Goals (MDGs) to combat hunger in developing countries. Within this, aspects like improvements to nutritional balance that can be realized through umami seasoning or contributed to by fermented foods are not included. In light of this, the evaluations for us did not take into account of factors such as growth, sales, and social contributions made through umami and dashi at all. Furthermore, Tsuyu (concentrated liquid seasoning for Japanese noodles) and flavor seasonings contain a lot of salt, so they received a zero evaluation. If we want to clarify these links and strengthen our appeal to investors, we have to exercise our power to have these contributions incorporated into the evaluation frameworks of public institutions, or we will not be able to change globally. For this reason, we started an action like the World Umami Forum.

**Okada:** The World Umami Forum is extremely highly regarded and I read a report by a journalist who attended the event said, “Ajinomoto Co., Inc. mostly stayed in the background and let chefs and researchers speak about data and observations with regard to umami from an objective perspective.” I

certainly think that unless you do something about evaluation frameworks, you cannot fundamentally solve this issue.

**Nishii:** Furthermore, we need to communicate the social value created by the Ajinomoto Group to consumers in an easy-to-understand manner. With respect to our goal to contribute to health, we have a clear, easy to understand priority of “let’s realize proper nutrition and get a well-balanced intake of meat and vegetables.” However, the reply to this might be, “It would be great if we could get a well-balanced intake of meat and vegetables, but we are too busy, or we are too poor, so what would you suggest we do?” Consumers might be left thinking that by only continuing ASV efforts, although it might have a big impact on business results, the Ajinomoto Group is not contributing to society. This is related to the fact that it is difficult to understand. In order to resolve this, we need to provide specific products and services.

Nutritional intake has three key significances – growth and energy, recovery from fatigue, and self-control and conditioning. 110 years ago, Dr. Kikunae Ikeda, who discovered glutamic acid and created *AJI-NO-MOTO*®, said, “Turn simple but nutritious fare into delicacies.” I think that “simple but nutritious fare” encompasses the three significances of nutritional intake I mentioned. Dr. Kikunae Ikeda thought that as certain ingredients have certain functions, if they could be used to make foods delicious then it will enable people to properly take in nutrition which will help make their bodies healthier. I want to further raise awareness of these kind of links to our products, such as how umami seasoning creates meals that are sufficient for growth and energy, how amino acids like BCAA help sports people recover from fatigue, and how products like *Glyna*® help realize a restful sleep.

Over the last 10 years, the Ajinomoto Group has primarily been focused on “deliciousness,” but the functions of amino acids also enable us to provide solutions in terms of added nutrition and conditioning. The volumes of meat and vegetable consumption are important targets, but unless we become a company that can provide new nutritional intake and specifically provide nutritional intake that people need, we cannot engage middle-size market areas. I think it is our



World Umami Forum

business to provide solutions to these kinds of needs and make them middle-size markets.

If we can do this, it will be very easy to understand in terms of how many undernourished children and exhausted adults we have improved life for. This is because it was achieved through products. Unless we provide specific products and services, it will be difficult to communicate our efforts through actions such as providing or recommending menus that feature meat and vegetables, or posting recipes on our website.

**Okada:** So you will launch products and services which are easy to understand in terms of both social value and economic value.

**Nishii:** For example, we are selling *Glyna*<sup>®</sup> by 10 million yen as a functional product or supplement by on-line shopping through our web-site. If we introduce *Glyna*<sup>®</sup> as an ingredient in *Knorr*<sup>®</sup> *Cup Soups* or Ajinomoto AGF, Inc.'s beverage, sales of *Glyna*<sup>®</sup> will grow to achieve 40-50 billion yen. Our current approach of solutions through menus that feature meat and vegetables is difficult to understand. We have incorporated this point into the six core businesses decided for our next medium-term management plan to show they are drivers for growth. Organic growth of the six businesses is just over 3%, so if we can strengthen products and services by 1% by providing functions directly like this, it will rise to 4%. I think this makes it easier to understand the connection between the financial and non-financial aspects.

**Okada:** This means a definitive difference between SDGs and MDGs is that SDGs cover advanced countries and even target extremely busy businesspeople in urban areas. It seems the SDGs have provided a tailwind.

**Nishii:** That is correct. In the U.S., as well as in Japan, salt reduction is an extremely important theme.

**Okada:** As many companies have been forced to tackle the SDGs, as President & CEO, are there any companies in particular you are watching?

**Nishii:** Among Japanese companies that are approaching this seriously, there are several manufacturers other than ourselves. Ajinomoto Co., Inc. is also on the board of the Consumer Goods Forum, an international group that is strengthening advancement in non-financial fields. Out of the 400 companies representing the world, 200 are manufacturers of food and personal care products and 200 are major retailers. I think we can be proud that we are a part of this group of leading companies.

## ■ Continuing as a company that can contribute to health and well-being

**Okada:** One more thing. I have heard that your diagram of the Group philosophy has made it simpler, but it seems a little complicated to me...

**Nishii:** In our Philosophy, the important parts are the Mission and the Vision which outlines milestones for achieving the Mission. Realizing these is our values, and values are actually

stories. There are four main ASV Value Creation Stories, and these connect to our business.

Specifically, 1) contribute to health and well-being through the food products and healthcare businesses, 2) contribute to the joy of eating together through the food products business in Japan and overseas, and 3) contribute to comfortable lifestyles by mainly the life support business. Also, we contribute to the sustainability of the society and the earth along with cost reductions through our supply chain, leveraging our resource-saving fermentation technologies and so on. Additionally, 4) we are raising the degree of global employee engagement through work-style innovation and health and productivity management. These also led to the development of specialty through the enhancement of value creation with customers and the realization of efficiency through the use of ICT. In other words, if we can improve our ASV stories, we have a structure that can achieve our Mission.

We intend to make each initiative further improved to connect our value with stakeholders' one.

**Okada:** It is easy to understand when you explain it like that. Finally, what are the values and principles that are consistently followed by the Ajinomoto Group, both in the past and into the future? While I think that Dr. Kikunae Ikeda's thoughts on nutrition and umami can be seen as ASV itself, I would like to ask you what should be changed and what should not be changed?

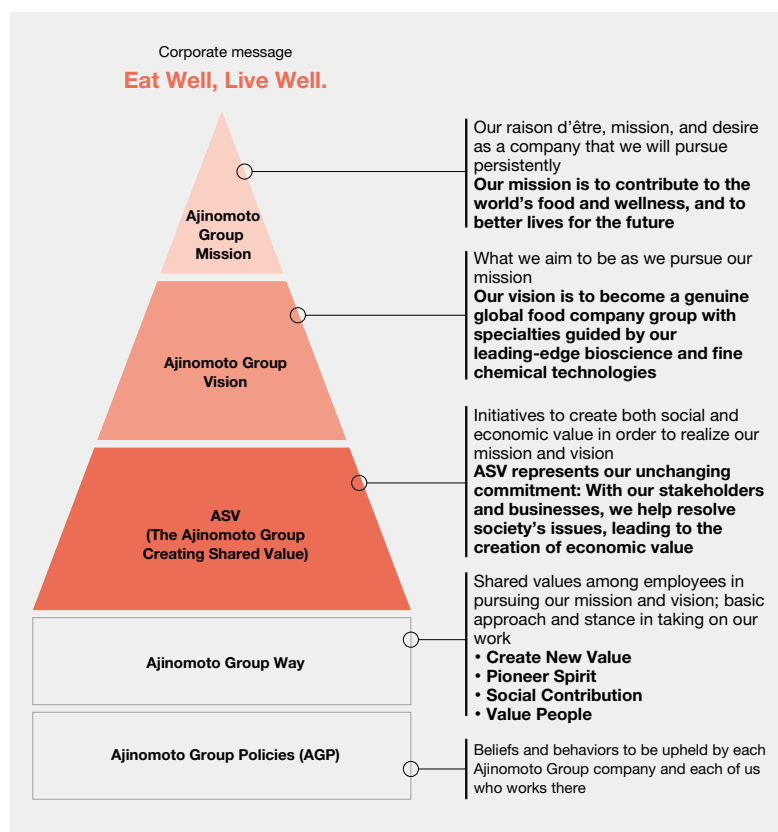
**Nishii:** What cannot be changed is our desire to become a global company which contributes as much as possible to health and well-being. This must definitely remain the same. I particularly want to use our core competencies to realize this. We will continue to research more deeply into the four functions<sup>5</sup> of amino acids and pursue applications for our findings.

**Okada:** I feel a spark is being created by engagement with people from different industries through collaboration at the CIC, etc. While this is just the start of these efforts, what are your expectations for 10 years from now? Not just on the Ajinomoto Group's own.

**Nishii:** The CIC is definitely a location for open innovation. There are lots of cases where visitors discover things like, "I didn't know Ajinomoto Co., Inc was doing that," or "We can use this to solve our own company's issues." We have actually already started joint research under non-disclosure agreements. While the number of these projects is still in the single digits, ideally, we would increase these kinds of orders to close to 100. If we realize traceability that can be narrowed down to each stage of these projects, evaluations of our development in terms

5. Refers to the flavoring function (create delicious meals), the nutritional function (promote growth, development and recovery), the physiological function (support physical health [an example of this is *Glyna*<sup>®</sup>, which has glycine as a main component]), and reactivity (creating new functions).

Figure II-8: Our Philosophy (2018)



of R&D will be easy to understand.

**Okada:** If you can realize a large project from the CIC, I think it would be a really appropriate use of the facility.

**Nishii:** If we can actively utilize our core competencies and external capabilities while always making contributions to society, I think we will begin to see the shape of our next 100 years.

**Okada:** Thank you very much.



# 3

## The Ajinomoto Group: The Last 10 Years and Expectations for the Future – Special Contribution by Professor Masahiro Okada, Graduate School of Business Administration, Keio University

### (1) The significance and importance of tracing history

I supervised the editing of this 10-Year History chronicling the first 10 years following the Ajinomoto Group's 100th anniversary, and participated in a dialogue with President & CEO Nishii. These were extremely valuable experiences. By the way, what exactly is the significance of a company's history? What kind of events and circumstances does a company go through from its founding up to the present day? Speaking as a researcher of strategy, recording these in detail has a strategic importance connected to decision making in terms of the allocation of managerial resources, that goes beyond just historical preservation. For each individual company, its unique history represents the cultivation and accumulation of managerial resources and capabilities (such as expertise, human networks, and human abilities). Unlike the widely available know-hows in manuals, the assets that anyone can purchase, and the general abilities that anyone can learn or acquire over a short period of time, these managerial resources and capabilities acquired through history are path dependent and firm-specific. They generate a distinctiveness from competitors and are inimitable in their nature. In the strategy theory, these resources can be a source of continuous strength, a sustainable competitive advantage, unique to a company. Knowing what a company has learnt from past events and experiences and how its values and human networks have been formed provides an understanding of the origins of its reason for being and its corporate culture, and has a significant influence on its current and future strategies and how successful these will be.

### (2) The unique characteristics of the Ajinomoto Group

I, as a business school professor, have opportunities to connect with a variety of companies. Among these companies, I realized that the Ajinomoto Group has unique styles and values as I come to know its history. There are two elements. One is the emphasis both on scientific technology and market adaptation (marketing), and I sense that the Group has a particularly strong orientation toward technology in food industry. The origins that shaped this characteristic can be tracked back to the scientific technology created by Dr. Kikunae Ikeda, who identified the umami component of seaweed and created monosodium glutamate (MSG), combined with the fearless entrepreneurial spirit of President Saburotsuke Suzuki II.

The Ajinomoto Group has another unique style. It is a strong determination that the Group should resolve social



Toyonobu Domen speaking at the International Council for Scientific Management and his audience (Fortune, November 1963 edition)



issues as a food company. I think this has its roots in one of the motivations behind Dr. Kikunae Ikeda's research – to realize social benefit by improving the nutrition of the Japanese people. Furthermore, in the period between 1955 and 1964, Toyonobu Domen, the President at that time, earned acquaintance with the Rockefeller family through which he recognized the importance of realizing social contribution through the company's main business beyond legal compliance and charity work. As companies build longer histories, they tend to forget about the philosophy and aspirations of their founders. However, reviewing this history enables a company to reaffirm why it was originally founded and what kind of strengths it has built up over time.

In the late 1950s and early 1960s, while Japan's economy was booming amid a period of high growth, President Toyonobu Domen made the following remarks. I would like to share them with you once again.

"We cannot be satisfied simply because our company thrives, benefits shareholders, and realizes good compensation for our workers. We must consider the public nature of our business and reach a point where we are a public service. This kind of social contribution means not only streamlining production and operations to deliver high quality products to the public at a cheaper price, but also engaging in business that makes society better, even if only a little. We should always strive to realize this ideal."

The Ajinomoto Group has taken the approach of "creating social value through business which then enables the business itself to thrive" since its founding, and this was shown inside and outside the Group through the concept of ASV (The Ajinomoto Group Creating Shared Value), representing the last 10 years.

### (3) The strategic significance of these 10 years: Proactive strategy building and ASV

Looking back over the Ajinomoto Group's 110 years of history, I think the past 10 years have a special significance. This is because there has been a change in direction from the propagation of natural growth driven by the period of high economic growth that followed the Second World War to proactive reform of the structure of the Group. I feel this is different from the expansion during Japan's economic bubble and the unavoidable austerity that accompanied its burst. While the 2008 global financial crisis (the Lehman Shock) created unprecedented external pressure, President & CEO Ito used it to create FIT & GROW with Specialty, a strategic direction focused on adding value to realize a vision for the Ajinomoto Group, and he implemented specific measures aimed at making the Group a GGSC (Genuine Global Specialty Company).

President & CEO Nishii continued this FIT & GROW with Specialty strategy in the form of "asset-light management and digital transformation," and under this phrasing, he has been responding to the rapidly advancing digitalization of business and its shift to networking. As discussed in the latter part of this publication, markets and society demand companies to go forward in terms of how they will address digitalization and digital platforms, and how they will contribute to society and the environment furthermore. This is a paradigm shift with trends that will easily continue for 10-20 years or more. I think the past 10 years have been the beginning of this structural reform by the Group.

The above-mentioned strategies were formulated and advanced, and the most representative event of the last 10 years is that the Group set the concept of ASV as its fundamentals. As Chairman of the Board Ito said in his interview, with regards to taking Porter and Kramer's CSV (Creating Shared Value) theory published in 2011 and replacing its C with A (Ajinomoto Group), Creating shared values (CSV) among corporate and society is not something the Ajinomoto Group will pursue from now on, but rather we, "Ajinomoto has already been long operated under this CSV spirit since our foundation." This shows another unique characteristic of the Group. While recent years have seen a growing number of companies declare they will practice "CSV management," the Group found its own way of expressing this very early on, and it is also using its own methods to closely link financial and non-financial indicators as integrated ASV targets, such as targets for increasing meat and vegetable consumption volumes. Also, ASV is not just a mission to be achieved. The Group has firmly positioned it as the Ajinomoto Group's values. Chairman of the Board Ito reiterates that the Group follows ASV approach simply because "It is always natural for us to do so." in the past, the present, and the future. I feel that this is another area in which the Group has inherited the strong desire to provide social value since its foundation.

Overall, I think the concepts, strategies, and values formulated by Presidents Ito and Nishii over these 10 years will be an important driving force over the next 100 years.

### (4) The Ajinomoto Group's superior technological capabilities (globally unique AminoScience)

In the food industry, it is generally considered important to have marketing and mass production capabilities that enable a company to get an idea of current and potential customer needs through market surveys, and then fulfill these needs by quickly developing products and producing them. This logic will not change now or in the future. However, the strong impression I had from visiting the Client Innovation Center (CIC) and the Ajinomoto Group Umami Science Square was that the Group puts an equal or even greater focus on technology than marketing and mass production capabilities. I have already spoken about one of the reasons behind this, which is that the commercialization of *AJI-NO-MOTO*<sup>®</sup> itself came from university technology. As a result, MSG was awarded the Imperial Invention Prize in 1926 and Dr. Ikeda was considered one of the ten Japanese great inventors alongside Sakichi Toyoda, who developed the automated loom, and Kokichi Mikimoto, who was the first person to successfully realize pearl cultivation. Furthermore, in the modern day, The Group is one of the top investors in research and development within the food industry, investing around 28 billion yen per year. From a global perspective, while it is obviously not at the same level as companies like Nestlé S.A., Unilever N.V., and PepsiCo, Inc., it does put the Group alongside Mondelēz International, Inc. and Danone S.A. I think this investment, combined with 10 years of swift advancement by acquiring footholds in each region through acquisitions, have resulted in the track toward a GGSC for the Group.

In terms of organization, these 10 years have also seen the significant restructuring of the Group's research and development framework, including the concentration of the dispersed research capabilities of each business into two research functions to form a structure that maximizes synergies. Furthermore, the CIC is also being utilized to realize collaborations focused on incorporating external technologies and external needs. I predict this will result in new synergies and innovation and I am greatly looking forward to seeing the results.



Cover of *Ten Japanese Great Inventors* published by the Japan Patent Office

## (5) The advent of the digital age and adapting strategy

The deepest impression I had during my conversation with President & CEO Nishii was that he had a sense of crisis regarding the decline of mass brands due to the spread of digitalization and e-commerce even as he takes a strong direction toward actively using e-commerce. In our conversation, his concept of targeting the strongly health-conscious middle- and upper-income earning segments by using e-commerce to sell functional health foods (for recovery from fatigue or comfortable sleep, etc.) directly became clear. For your reference, in FY2018 the Japanese e-commerce/mail order market for health foods was said to be worth 513.4 billion yen. The Ajinomoto Group was estimated to have a 2.8% share, while the company with the top share had 16.7%, so there is lots of room for growth.

(FY2019 Health Foods Mail Order/E-commerce Business Strategy Survey, TPC marketing research corp., <https://netshop.impress.co.jp/node/6923>)

Also, as e-commerce will make it easy to transcend the boundaries of language and national borders, it is thought that ultimately, technological capabilities and product strengths will be the deciding factors. The markets in which the Ajinomoto Group can demonstrate its strengths will become global in scale. The advantage of online retail is that it is possible to reach customers in real time by providing them with products directly at a lower cost. Recently there has been a boom in the import of pharmaceuticals and health products by private individuals, and considering the development of worldwide logistics technology, inventory costs will be eliminated in each consumption area. Test marketing, which is high-mix low-volume long tail retail methods, will enable products that perform well to be identified at an extremely low cost. So the Group will be able to realize efficient marketing and business growth. Regarding future global development, while I think the frozen foods business in North America will play a major role at first, the global market for health foods through e-commerce

Table II-1: Industry dominance ranking (food products industry)

Position	Company name	Number of patent citations
1	Ajinomoto Co., Inc.	269
2	Kirin Holdings Company, Limited	258
3	Suntory Holdings Limited	181
4	Asahi Group Holdings, Ltd.	180
5	Japan Tobacco Inc.	165
6	Nisshin Seifun Group Inc.	156
7	Meiji Holdings Co., Ltd.	141
8	FUJI OIL HOLDINGS INC.	129
9	NESTEC Inc.	111
10	PHILIP MORRIS PRODUCTS S.A.	108

Note: The figures show the number of patents owned by each company that were cited as the reason to reject a patent filed by another company during the patent examination process in 2019.

Source: Investigation by Patent Result Co., Ltd. The written representation of company names is based on presentations by Patent Result Co., Ltd.

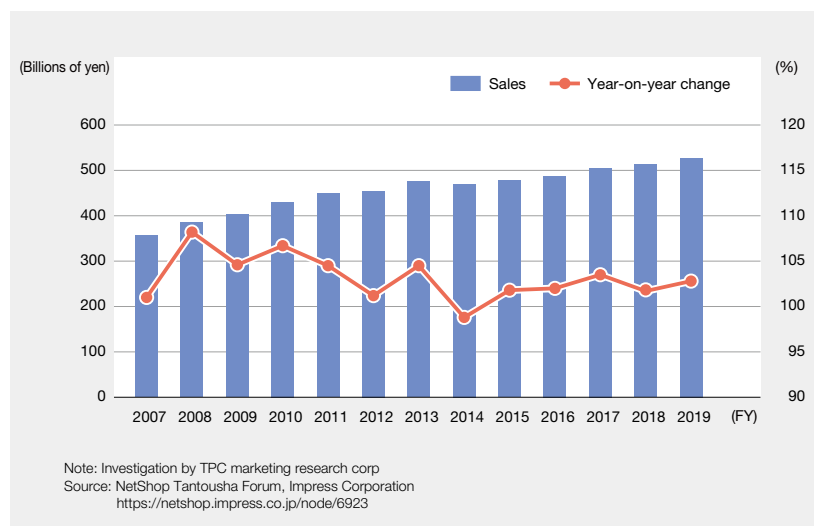
will become an important growth area. I look forward to seeing the Group's next move (product functions and sales methods).

## (6) Challenges for the next 10 years

During this period, the Ajinomoto Group has acquired many companies and businesses to plant the seeds for future growth. Furthermore, it has advanced internal restructuring that further strengthens synergies between businesses with AminoScience at the core through a transition from a "company system" to a multi-divisional system and integrating research and development to eliminate silos. This shows the necessity of not aiming to simply acquire companies to grow in scale as a conglomerate, but acquiring carefully selected companies that offer strong synergies and then using their sales channels to expand the sale of products based on the Group's original technologies. Generally speaking, while corporate acquisitions have an instant effect in terms of scale, it is difficult to create originality and synergies. I think that the key to become a

GGSC will be to demonstrate originality through management based on core competencies that position AminoScience at the center and then apply this through retail channels (mixing real and online) in each global region. When considering what kind of synergies will be generated between acquisition companies and the AminoScience technological capabilities developed internally, I would like to see a focus on, to borrow President & CEO Nishii's words, synergies that link "being an amino-acid driven company" and "globalizing the food products business." I think the concentration of the company's future strategic direction will be based on President & CEO Nishii's statements that, "We will not be able to take advantage of digital growth unless we combine our core competencies with technology and marketing to concentrate in

Figure II-9: Scale of the Japanese e-commerce/mail order market for health foods



fields where we can build a competitive edge,” and “two trends – the growth of small-size markets driven by digital trends and e-commerce that incorporates the diversification of consumer values on sustainability.”

### **(7) Looking toward the next 100 years**

While editing this publication, I have learned about the spirit of the Ajinomoto Group since its foundation, which has come to fruition through the ASV concept. This approach is not just about improving nutrition, but also about contributing to health through the “deliciousness of umami,” connecting people, and connecting to tradition through food. The Ajinomoto Group has contributed to society through the creation of new lifestyles, culture, and mindsets that are not defined by fixed gender roles and realizing a world where the lifestyles offered to women are broader while keeping the quality of diets. The Group continues to pursue the three key significances of nutritional intake, which are 1) growth and energy, 2) recovery from fatigue, and 3) self-control and conditioning. I think the Ajinomoto Group’s mission and ASV, the values that guide behavior in support of the achievement of this mission, have a universal quality which provide a backbone that will carry the Group over the next 100 years.