

**Software without manufacturing base would be meaningless**

**Satoru Anzaki, President, Komatsu Ltd.**

- 1959 Graduated from Faculty of Sociology, Hitotsubashi University
- 1961 Graduated from Faculty of Economics, Hitotsubashi University Joined Komatsu Ltd.
- 1977 General Manager, The Third Section of Construction Equipment, Overseas business Division
- 1981 Administrative General Manager, President Office
- 1984 General Manager, Sales Division General Manager, Dealer Business Division
- 1985 Board Member, Deputy General Manager, Overseas Business Division
- 1986 Board Member, Deputy General Manager, Corporate planning
- 1988 Executive Director, Divisional Manager, Sales Division
- 1989 Executive Director, Corporate Planning
- 1991 Chief Director, Divisional Manager, Global Business Division
- 1992 Chief Director, Divisional Manager, Construction Division
- 1995- President

Many Japanese heavy industrial companies experienced the oil crisis twice in the 1970s, yen appreciation in the Plaza Accord of 1985, the Heisei Recession in 1991 and economic slowdown at least once in the current Japanese structural changes. It's very difficult to find an exception such as shipbuilding, steel, electric and automotive industries. There is a company which continues to show a gain from 1950 to 1998 for about 50 years and pay dividend. The company, Komatsu Ltd. ("Komatsu") strongly depends on the main business of construction machines which accounts for 80% of the total and is peculiar existence in the Japanese heavy industry whose export ratio exceeds 30%. Komatsu established its global manufacturing sales system in the late of 1980s and the first advisory board in Japan, 1994 to review corporate governance and furthermore entered a new business of electronics. This resulted from the fact that the firm took prior measures ahead of other companies. It kept a surplus in non-consolidated financial results of the March 31, 1999; however it forecasted to plunge into the red in the consolidated basis. The consolidated statement exceeded the non-consolidated result. How does Mr. Anzaki who has had 5th year since he became President steer the company at this turning point?

I asked him the business environment for Komatsu, how to regain profitability and review new business, decision making structural reform, employment issue and human resources cultivation. We had many opportunities to have interviews with the top management of the soft industries such as consumer goods, distribution, food and venture however this time we had an interview with the top of the heavy industry.

**Outline of business environment -The domestic demand reduced to 50%**

**Interviewer:** This year marks 5th year since you became President. Could you tell me the changes of business

environment during this time?

**Mr. Anzaki:** The construction equipment business in Japan had been in good condition until 1996. In 1997 and 1998, it became worse and made a sharp plunge. During the two years, the demand in the domestic market decreased to 50%. We were in the severe condition to make profit in the half size of the market. After an increase of consumption tax and decrease of the public investment in April 1997, the rate of increase recorded a minus from the previous business year. The rate fell at 10%, marking a minus 15% in October, 1997, 20% in the late of 1997. It continued to mark minus 20% in 1998. We registered negative growth rate of 45% and 50% for the currentfiscal year.

**Interviewer:** Why do you have less severe result in non-consolidated and consolidated basis while the domestic demand decreased to 50%?

**Mr. Anzaki:** Because we had high profitability of the construction equipment business in Europe and the U.S. that we continued to focus our efforts on. This doesn't come from the export business but includes one part of the export. It was provided by only the local employees who manufactured products in the plant and made a profit on the local sales. We could keep increasing high profitability and good business these days in the North America which was one of the global businesses because the American economy enjoyed a boom resulting in offsetting the negative growth of 50% in Japan.

We have started to manufacture and sell products in the U. S. since we started a joint venture with Dresser Industries Inc. in 1988. During the same period, we arranged European and Asian branches to finish establishing the global network of manufacturing and sales in 1996. We thought it would take one more year to globalize the overseas production for construction equipment in Asia including Japan, China, India and Russia, America, Europe because of the acceleration of yen appreciation in 1995 however we could finish it only for six months. We thought it would take a long time to do so, but we could smoothly carry out the construction business in the overseas plant. From 1995 to 1998, the economy gradually improved. We posted record high profits in North America and Europe in consolidated basis for the year ended March 31 of 1999.

**Interviewer:** The overseas high profit wrote off the domestic poor business results. Will the domestic demand improve soon?

**Mr. Anzaki:** In the late of 1999 of this year and last November and December, although the whole demand registered a negative growth, some branches in Hokkaido, Tohoku and Kyusyu which comparatively have more public works investment returns to prosperity. If the government orders the national project again it takes times to start it again because it suddenly stopped it in 1997. It'll be sure to take much time to restart the project that was given up once. Even if the government invests money on the national projects, the domestic demand will not increase soon. It takes time to do so. Some projects are still stopped even if they received national budget because they haven't received prefectural. The government actually invests little

money to make effective use to make such publicity of this figure. That's why the whole Japanese economy doesn't necessarily show the positive growth. The delay of financial revitalization has a major impact on the economy and the private business which remains very flat. Only the public project doesn't help the economic recovery. However, the Obuchi Cabinet had taken a lot of financial measures since last April, which will lead to show a sign of economic upturn from the local areas of Japan. Last October or November, we can see positive economic growth in some prefectures compared to the previous fiscal year. Both in Northern and Southern areas, we had positive result but there is still negative growth in Osaka and Tokyo. The whole economy register negative growth but the minus gap gradually become smaller and smaller every month. Maybe the whole economy will become positive in the comparative early period since this April. The domestic market might recover to the level of two years before but seen from the whole economy, it won't return there. The Japanese market of construction machine had favorable situation for 20-30 years. We forecasted such decrease of the domestic demand which would be the normal standard and took prior measures to overcome the condition in 1993.

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#### **Integrate the production site to improve profitability**

**Interviewer:** What measures did you take in such severe market?

**Mr. Anzaki:** We were in the great condition from the global viewpoint. We're never been back there again.

I thought about various things to establish the system to make enough profit on the present level of the demand when we registered a negative growth in April, 1997.

First, I had started to make drastic structural and organizational reforms of branches with heavy load such as sales, service and marketing divisions to lighten such load since the early period of the first half of 1997. It took a year and half to reorganize it until the present level and completed it in the marketing Dept. We could make the structure to keep a surplus if the domestic market will decrease to 50%.

Second, I reorganized production site. We have 28 factories in total, 11 of them are in Japan. The global demand makes an annual increase of 3%. If we build overseas plant, production volumes will decrease a little in Japan. We have to reduce it in Japan because we transferred the domestic production function to overseas factories. Due to the sluggish of the whole Japanese economy, the market will become smaller which results in providing cost competition. The two factors led us to review the production system in Japan.

In the first stage of the project, we decided to close a plant of Kawasaki and change it into a warehouse for distribution and sales base in 1993. We integrated manufacturing division into other factories and completed this in 1995.

The interesting thing was that we also transferred the sales base there as well as distribution. After that, Toys R Us told us that it wanted to lease the place. So we built its shop for rent. It is a shop in Sagamihara and Atsugi district. I sometimes go there to see it so crowded on weekends that there are no parking spaces on the

first and second floor.

This was originally the second phrase that I thought before. I mean we made such drastic reform as the final project ahead of the schedule.

Komatsu Group did construction business with related companies however it had few impacts if we made a reform only in Komatsu, so we decided to do it in the whole group. Although it went the reverse way to the world trend, we closed three companies, KOMATSU EST Corp., a related company of motor grader in Kashiwazaki of Nigata prefecture, KOMATSU ZENOAH Co., a related plant in Tachikawa City, a research center in Saitama. We integrated their staff members of the production and development divisions in Kashiwazaki plant to Maoka plant in Tochigi prefecture.

The plant of KOMATSU ZENOAH Co. in Tachikawa City is located in the front of Higashiyamoto station in the suburb of Tokyo. A monorail reaches Saitama completed there. In addition to that, other side of monorail to connect to Tama area is under construction. We have had the plant in the commercial area where people gathers by monorail, the center of community or the center of the city for several tens of years. We will find anyone to buy it because this is the best place. It's meaningless to leave it unattended and is also bad for local people. It has no good effect on cash flow and profitability of the balance sheet and we also can't arrange the balance sheet. Therefore, we've long thought to reuse or deal with the place.

We leased the place of Atsugi to Toys R us and sold the warehouse of Machida to Mitsubishi for redevelopment. We have to make the most of unused land for our country or the local area at the same time to improve profitability as well as cash flow therefore we have integrated the production since before. This time, we observe the same rule as before. Especially the price of Tachikawa plant site will increase a lot because the monorail from Tama area will complete. I think many people want to use the place as public site such as shopping center or community center. We have too many places in the center of the city. To continue to invest there for 30 or 40 years, we promote to integrate the production site to make use of it for other purpose. With thinking about how to use it, we will integrate our operation in the Japanese market where the demand reduced to half and concentrate on manufacturing products in the rest of factories to reduce the fixed expense and the whole cost.

### **Integrate plant with making top priority the job security and Merge related company to the head office**

**Interviewer:** If you close your plant or sell it, you'll have an issue of employment. How do you deal with it?

**Mr. Anzai:** A professional in accounting, people involved in manufacturing or sales understand how we implement cost accounting in Japan. When we calculate costs by variety of machine, we think preferred operating rate. If we reduce the production volumes due to a shortage of demand, we have extra cost of the fixed expenses which are impossible to be absorbed and paid. I tell my employees not to say it capacity utilization loss. We calculate all costs including capacity variation or marginal gain in Japan. Companies in

the U.S. and Europe would rather use the direct cost system but they have to check the both because the system leads them to receive low order. The good thing of this system is that if they calculate the cost and have a shortage of operation capacity, they take responsibility by themselves which is different from Japanese plant managers. If they calculate the whole sales, standard variable margin and fixed expenses resulting in having a deficit, they will decide what to do in the early period such as lay off staff members or close a plant. However, Japanese plant never takes such measure. They say, "It's for anybody's fault not my fault. It's because people in sales didn't sell products well." Many people say like that. I suffered from such problems. When the demand falls, we have to arrange the production volumes according to the conditions and reduce the cost with the decline of the price. Although we reduced the cost according to an increase of quantity before, but it didn't work well. Therefore, we take some measure for it to prevent worsening the condition. As a result, we'll get to an issue of redundant human resources. The reason that Japanese manufactures can provide high quality, high reliable product and service is because people have high quality and reliability especially people on site. That is because they have high loyalty to their company. It might be liable to be misunderstood that we are guaranteed but we can't simply lay off our new staff members in turn with an extreme contract or never tell them to quit here from tomorrow due to the bad business results. Some people say this is a weak point or disadvantage for Japanese companies. This is like the back side of coin.

**Interviewer:** You will have redundant staffs of related company in the closed and sold factories.

**Mr. Anzaki:** As I told you, although we went to the reverse way to the world, we first integrated business of related company and some split up divisions to the whole group to place them in the best position. In order to do so, we couldn't help placing them in the main plant of Komatsu therefore staff members of related subsidiary or separated companies received the damage. After long term discussion this time, we merged KOMATSU EST Corp. and KOMATSU MECH CORP. with Komatsu and decided to receive those people as full-time worker of Komatsu. However their salary doesn't automatically increase according to the standard of Komatsu but will be fairly decided based on their ability and business results therefore it won't make a sudden increase to the base salary of Komatsu. In order to feel them relieved, I wanted to eliminate the discrimination sentiments that we would sacrifice them if anything happened when we received them in the head office. We still have a little difficulty in overcoming the condition but made such big decision as merging the two companies to develop our company and trimmed the fat off the spending. Those staff members were used to living in their house for a long time and might be difficult to change their environment soon however we asked them to sell their house and place to move to new location with the money. 100% of them won't come here but we would like people who can come to work as full-time worker. We announced it last November and are preparing for it now. We integrated our company like this. We established the framework to make double-digit gain or more in the decreased domestic market to 50% of the level of 1998 in order to reduce the fixed expenses in the marketing Dept. and production. I think the market will become a little better. It's already decreased to half, so there's no case to downsize it anymore this year. It might be gradual or sudden decline, we will do our best to keep it stable. There's few industry that the demand reduced to half except for ours. This industry will

fall into a decline first and also recovers first. We established the structure to survive in Japan even if we have such difficulty. Therefore, we just keep eye on the results of implementation.

### **Reconstruction of Electronics business**

**Interviewer:** For the future action, you take appropriate measure to secure profitability of the main construction machine business however you recorded a loss on electronics business especially silicon wafer in the consolidated basis of the fiscal year of 1999. What do you think about reconstruction of new business including electronics?

**Mr. Anzaki:** The difficult issue is electronics business. It's been 30 years or more since Komatsu Electronic Metals Co., Ltd. did silicon wafer business. This largely fluctuates and makes high growth and high profitability than construction machine until 1997. The situation has largely changed this year. The semiconductor industry such as Hitachi, Toshiba and NEC, Hyundai of Korea and Western companies became slowdown resulting in closing some factories. The declines of the price and demand caused to record the unexpected lowest price. The volume didn't reduce so much. The price decrease had a major impact on us. We implemented equipment investment to improve this condition however the whole industry became in sluggish at the same time. This might be a result that we lost our perspective. The global semiconductor and electronics industries became in a big trouble.

Although we had a hard time to overcome the condition, fortunately our Taiwan office still keeps good business. The semiconductor industry in Taiwan is receiving investment from Japan, U.S. and Europe riding the waves of "foundry" specialization which does not manufacture general products but focuses on customer specific products. There is a plastic manufacturing group in Taiwan. We established a joint venture this March to start the shipment. In order to deal with rapid increase of the demand there, we invested money to start business in the form of joint venture. If we invest money to start up the business, it will increase its profitability. All we have to do is to rationalize Japanese business.

We also made investment in the U.S ,however because we will have poor future prospect of silicon wafer and separated Komatsu Silicon America Inc. from Komatsu Electronic Metals Co., Ltd.. We the whole Komatsu group will develop American business based on the company in other electronics business. Although we might not make use of 100% of the function, we could lighten the load of it and took measure to bootstrap ourselves out of this condition in order to reduce a loss both in Japan and Taiwan. I think we will shrink the deficit but it's difficult to get into the black this year. If we can't move into the black, we can't help starting something new to survive in the reconstructed industry.

**Software without manufacturing base will be wasteful.**

**Interviewer:** Many companies would rather withdraw especially new business or business in deficit than reconstruct them. It seems that Komatsu would rather integrate them to the head office or strengthen an influence to the head office. What intention will you have about it?

**Mr. Anzaki:** As I told you, we first lightened the load of the main electronics business which had the greatest number of deficits and concentrated on Japanese and Taiwan business. Then, we will take measure to reduce the number of manufactures or get in the top sales ranking to make stronger position in the whole world. The deficit on electronics business will reduce a little this year but won't run into the black. In order to record a surplus, we will move into high gear to recover the condition with such positive measure. As some analysts often say, "Now that it's the time of concentration and choice, if you withdraw your electronics business, we will make your share price double." However, we did various things in the domestic business in the past thirty years. Such experiences enabled us to absorb human resources. We had 20,000 or more staff members before but now have 8,000. We promoted various businesses to create employment. I understand they say it's not the time to do such thing. If we say so, what is Japan going to be? People working in the national university don't care about it because they can receive their salary from our tax. Kobe University will not close. It promotes to start new business with governmental fund but the success percentage will be three-thousandth. It can create small businesses and three of them will be successful. If it's centuplicated, it repeats success and failure. A lot of Japanese manufactures implemented new things in their group, although many of them became bankrupt. But they take responsibility to keep the employment stable. I don't want to keep 100% of them but want to maintain good parts not get rid of everything. We're sure the labor population will reduce within twenty years. How will Japan survive? We'll survive with software business. Software without hardware is nothing else than waste. Are we going to make software heaven at lower cost than that of India? If we are asked whether the level of Japanese engineers is higher than that of India, I think it's the same. We started business in Bangalore of India, so I saw its development for a long time and the level of the engineers exceeded that of Japan. In addition, their income is lower. Therefore, it's an illusion we can survive only with software. We manufacture good quality of hardware with continual technology innovation and a good teamwork and export or expand them to the global market to survive here. Who pays tax in Japan? It is the system of manufactures and engineering software. The system without manufacturing function will be difficult to be built in Japan.

**Interviewer:** What will we do and keep the manufacturing system with development of software industry?

**Mr. Anzaki:** It takes 20 years if we changed the education system and achieve the result. How many years does it take to stop the current education system with the standard deviation score and create a hundred of people like a great Edison in Japan and make the original products by ourselves, Japanese? We still have no such education to create the world-class technological innovation in Japan because we have horizontal structure. Other countries make efforts to develop technological innovation, so we are in highly competitive market. With

changes of the fundamental conditions, we can't make new technologic innovation. If we do business in Japan and pay tax to the innovation which is expected in Japan, we have to keep something at certain level. I think it's strange to abandon tradition of employment. We have to leave it as much as possible. We don't have to make all people equal but have to make the system to retire people who don't work well or reciprocate people who work well or have ability and good achievement. We have to establish business mainly with people who work well according to the system. We have to review the unfair employment system of dependence or the government in lukewarm water to provide good backup to motivated workers. If so, we have to take a little risk to do it. We can't give up to do business soon even if we have a deficit. I always think how I strike a balance between share holders' request and contribution to our society, our country or the world. This theme remains strong in my thought. It's easy to think of it like the case of U.S. but no employees will follow us. The competitiveness of Japanese business results from the fact that Japanese employees follow a company with certain level of reliability. If it becomes ordinary to lay off staff members and sell business like American case, we can do it without hesitation however it will take 20-30 years until Japan reaches the level. I put much importance on share holders, profitability in the transition. I try to keep a balance in any things. I place a great deal of importance on treatment and teamwork of employees, talented persons and non-talented. Therefore, everybody blames me, "If you run after two hares, you will catch neither." Because we are in the transitional period, we have to do so to prevent the system from breaking down even if we know it's impossible. We took drastic measures in the U.S. but don't bother American economy.

Last year, we closed our plant there in the good economy. We've been worried about the decrease of the demand for four or five years, therefore we closed the most inefficient plant and transferred its staff members and production to the main plant. People who could move there came to work in the plant. When we announced to close it, the local staff asked me the reason despite the sponsor made a lot of money for the plant in this boom however we decided to close it. We'll finally finish equipment investment we increased in the main plant. This was the maximum effort for us for improving profitability in the falling demand. Maybe the reason that we have confidence of keeping stable profitability when the demand falls is because we always make an effort to improve the cost competitiveness. Fortunately we could find a buyer for the plant, other companies decided to absorb 100% of our human resources. This is a good point in the U.S. When we negotiated the condition to close the plant, we found a person who wanted to buy our plant. That's how we could sell our plant. Therefore, there is a dynamic system to make our staff members and local people happy and also make me feel happy to get a profit. However if the economy becomes worse, nobody will try to buy it in the U.S. we can take various measures like this case.

### **Reform of Decision-making system- Effect of advisory board**

**Interviewer:** I understood how you directed to reorganize construction machine and electronics business in the domestic falling demand. By the way could you tell me how to review organization? Some Japanese companies



introduced advisory board system, corporate office system or company system, furthermore change to holding company. How about Komatsu?

**Mr. Anzaki:** We held the International Advisory Board in 1995. The member consisted of four, a person who was a former assistant administrator of the State, chairman of Applied Materials Inc. which ranked the top in the manufacturing device of electronics semiconductor, a partner of German consultant and a chairman of joint venture. We held the first board before I became President in 1995. We had six meeting in total for three years.

We had a strong impact in the first meeting. It was a little bit early to hold it in Japan. We thought it as the meeting by advisers of external board, but they did not think so. Of course, they have no legal responsibility. However they had thought they could give us any advice for our global business from their viewpoint as outside board member. They knew how to discuss in the meeting because they experienced an external board and was used to American style management. We wanted them to freely criticize our presentation including confidential matters and give us their opinions therefore we continued to hold the meeting. They gave us advice on a consistent stance of shareholders. It was very clear for us that they told us like that. They said to us that they understand our business, strategy, global increase of the market share, rising sales, making profit but they said that we invested a lot of money and few explanation for the balance sheet and cash flow. They told us to explain them in detail. This was the first strong counter punch from them. They also asked us how we decide the investment or how to prevent overinvestment of corporate governance. We didn't have any illicit dealings, so they didn't worry about it but asked us how we prevented the top from abusing management.

Japan has no custom to call people first name but American people respect an individual and starts to call me my first name from 5:00pm. When I play golf, I don't want anybody to call me President. I can accept to call me Ron but I'm not used to be called as Yasu.

Therefore, they said in the advisory board that executives should focus a little on the direction of the management, corporate value, stock prices and cash flow from the view point of shareholders. When they saw our balance sheet, they said we were the best target for American companies to buy out because we had paper profit on stocks of ¥600billion. If we were bought out by a bad company, we would be quite empty and thrown away. However, there is cross-share holding system in Japan to prevent affiliated companies from buying out Japanese companies. The system prevents foreign companies from buying us out. They said "it wasn't necessarily good for any other shareholders and Japanese citizens to keep unused land. Would they feel happy about it?". They also said nobody knew when stock of banks will fall. After that, their advice became true. If I prepared myself for having quarrels with banks at that time and sold all of those stocks, I would become successful. However, I couldn't do it. As a result, we lost most hundreds of billion of our assets due to the decline of stock prices. We mainly discussed business strategy, improvement of profitability, Product Liability Act and the market in the advisory board. We also talked about the balance sheet, cash flow, various problems from the viewpoint of shareholders there in the early period and discussed as how to improve the balance sheet or what the management for shareholders was in the board or corporate management meetings. This was a good turning point for us. When I became President, same as other general leaders, I roughly recognized

that a company would contribute to the local area, shareholders and the board, and has to keep good balance among them. However, when I was asked who possessed the company, I found to answer it should be shareholders. It was the first time that I received barrage of criticism at the International advisory board since I became President. Therefore, I could take measures for those issues earlier than other companies. We took action for it in the early time and had reviewed such problems since 1995.

**Interviewer:** Did you introduce executive office or external board system?

**Mr. Anzaki:** I really have strong feeling to bring about a balance between two things and try to run after two hares, so I thought corporate officer system had the both good and bad points and I might have something a little unique for a year and half. I couldn't make a reform without thinking commercial law. I can't help being persistent to the law. However, when I thought about employee's achievement goal or loyalty to executives and how executive understood our business, it was very difficult to hire a person who worked in the different field as corporate officer and make him manage the company. If he is really talented, we'll have no problem to introduce the system however there're few people like him in Japan. If we do so, we have to choose non-Japanese. The top of other companies can't manage to run a company next to them. Ten or fifteen years later, although I think people will be able to do it but there are few people like him in Japan now. Therefore, if we suddenly hire corporate officer who is an inexpert of the management or little understand business and culture, we will have a bad influence on board meeting. In addition to that, I have to delegate an authority and responsibility drastically. If I do it in the irresponsible way, it results that the board meeting will be meaningless. I can't deceive all of 20-30 executives, so they might take some measure to prevent the top from abusing the management. If there are few executives, they will have feelings of being a company each other. That's why we have to have a good system where external executives can tell their opinions instead of shareholders. Otherwise, the executives meeting will deteriorate or be powerful and executives don't care about business. If so, the system doesn't necessarily give us good influence. The advisors told me this was not rule by law but rule of men. I was persistent to the opinion, but I couldn't help changing my thought according to their opinions. That's why I decided to introduce the system this year in the whole group.

**Interviewer:** How will you introduce the system concretely?

**Mr. Anzaki:** We have three listed companies in our group except for construction machine. We'll reduce the number of executive to introduce corporate officer system in the four companies at the same time. What will a corporate officer do? What issue will we talk about in board meeting? How will we operate it or when will director retire? We'll make the system which nobody change selfishly, prevent any problems that I thought from occurring and introduce it as in an external adviser style although we learn how to do it from the advisory board.

**Interviewer:** I want to ask you a question about what you said now. If you hire external people, corporate officer in such advisory board of your company, your authority as the top will be restricted?

**Mr. Anzaki:** This is also the purpose for those systems. It prevents the top from abusing the management. The payment for the top is so low. I checked annual income of my American colleague of director. His income was ten times as much as mine. I only receive one-tenth of his, become embroiled in representative suit as a result lose whatever money I have. In order to raise my income openly, I have to make such system. The top in a Japanese company has strong authority. I knew it when I became President. I can try to use it whenever I want to do it.

**Interviewer:** If you reduce the number of officers as you said, I think only a company will gather.

**Mr. Anzaki:** We may have such problem in Japanese companies. We should try to do this system first now, and then ten years later, we have to calmly study the successful stories or failure including our case. Most of them will be successful but some cases will have a strange or big problem. Maybe we won't be sure the strange case because no companies will make such information public. Some companies will suffer from poor business result or their employees will leave the company. I want to device to prevent such case. I want to carry out the system according to a rule by law.

**Interviewer:** Will you introduce American committee such as Ethics board or benefit committee, personnel committee as the devise?

**Mr. Anzaki:** Same as a benefit committee, we made a stock option committee to introduce it. We talked about our stock option system and payment open with a chairman of Sumitomo Bank, President of life insurance, a consultant relating to personnel and a lawyer. They said, "You received too little not too much." This was the first meeting. I changed the system for employees, assistant managers, managers, general managers the top of related companies and executives finally. I worked my way up the president. It's the first time to receive stock option therefore I made a report without widening gap. Some people say it's too bored to become president if they receive such a few options.

**Interviewer:** You'll clarify the personnel system to keep transparency.

**Mr. Anzaki:** External people might not understand it. The most important thing is to clarify how to choose division managers, top of related companies and current corporate officer. Generally speaking most companies adopt the corporate officer system in Japan but we will adopt the system in 60% of the overseas construction machine business. We will also introduce global officer system in ten or more global offices such as manufacturing base for construction machine or large overseas offices in the world and register the top as a global officer to take their responsibility and be pride of their job. We also have to introduce the same payment

system for them. We'll make the system to gather a lot of great people in the U.S. and Asia. It's very good to have more people who receive higher income than mine.

**Interviewer:** Global officer system is the overseas version of corporate officer system.

**Mr. Anzaki:** Yes. We can't reward them for their efforts with stock option of Japan. We have to introduce the local incentive system to gather excellent people. I would rather give them higher salary than mine to rack up profits than worsen the business for the reason of providing them lower income. Therefore I put up with that situation. They say I should take more salary.(He laughed.)

**Interviewer:** Who is the bottom level to receive stock option?

**Mr. Anzaki:** From the managerial position to board member. Our personnel system is applied to general managers, divisional managers, professionals in charge of development and sales. We have 20 people above this level called as directors. This system is also applied to them. There are few people applicable for the system. To my regret, I'm really sorry to them that the stock price keeps stable and we have appraisal loss on company's own stock. We have little bad influence because we only have about a million stocks. I think the stock price will increase soon and they can expect to receive some profit. We'll extend the range of people to receive it.

**Interviewer:** It would rather be better that you reward people who are transferred to relating companies for their achievement with stock option.

**Mr. Anzaki:** We would rather give direct incentive to the top of related companies or divisional managers. We'll add it to their retirement allowance to prevent them from paying higher tax. Although it's liable to be misunderstood that we prevent the tax law, the most rational way is to increase the point of retirement allowance. We said, "You achieved good results in this term and could receive ¥10 million." This is the best way so far. However, because I don't want to compromise on the tax system, I told them to pay tax by cash and complain the government directly that the tax rates for high-income earners were too high. Therefore, we'll give cash wage and annual bonus as incentive. We give executives stock option and adopt direct tax to the rest of employees in Japan. We started the second advisory board in 1998. A president of Michigan State University who was the former under-secretary of Foreign Ministry joined there. He said, "I don't want to get payment and just joined here because you told me an interesting thing. But if you really increase the stock price, please give me stock option." I checked it whether I could do it or not. However, I can't give it to him because he isn't our employee. If he becomes our staff member, he'll be released from his duty there. Therefore, I can't do it if I want to do. I think there are no strange countries like Japan.

### **Roles of Corporate culture department**

**Interviewer:** You have the Corporate Culture Department in the Corporate Planning Division. I think it is unique section.

**Mr. Anzaki:** There are various things such as corporate extortionist, bid rigging and cartel. I could check them because I thought they would be basically troublesome. We didn't have such problems so far. We discussed whether we would express corporate ethics in a word or on a brochure but decided to do it clearly. We have a lot of group companies in the world and sometimes have various problems such as sexual harassment and misconduct. We have to inform such important ethics on business to all staff members of twenty thousands and thousands of people precisely because there were some various accidents at that time.

**Interviewer:** When did you issue it?

**Mr. Anzaki:** We established the department in 1992. The former president made "the committee for the 90s" in the series of flow to change the corporate culture. In order to observe a rule of the business society, we made "Komatsu's world Code of Business Conduct" last year and delivered its brochure to all employees in the world. We revised it this year.

**Interviewer:** People often talk about issue of disclosure or corporate transparency now.

**Mr. Anzaki:** It's sometimes inconvenient for us. It's difficult to explain it when we have a loss.

**Interviewer:** Do you explain it to investor relations directly?

**Mr. Anzaki:** Yes. I often go there. I have to continue to do it for a while although I don't expend all energies there. Once I join there, I'll do it every year. I join a place where it is held periodically every year.

**Interviewer:** I think what you disclose than go there is more important.

General companies with bad business achievement only disclose good point but don't tell that they closed a plant or sold it.

**Mr. Anzaki:** Any analyst can understand why we have a loss if they see our information. Some people say we disclose it too much. At any rate, we should be able to enjoy time in the future. We have no potential risk. It's natural that our stock price decrease because of the report. We have to improve our business performance.

### **ROE/ROA/Cash flow management**

**Interviewer:** I want to change the topic to ROE, ROA, cash flow, management. If you express the result by a figure, there are some inconsistency in ROE, ROA and cash flow. For example, you have to integrate business to maintain human resources or keep manufacturing products in Japan. If you do so, you need to invest in equipment. Meanwhile, you have to reduce such things to reduce denominator,

**Mr. Anzaki:** In order to reduce it, we have to make an effort to do dispose of redundant land, bond proceeds from sales and reduce defective inventory for asset management to change ROE, ROA. Of course, we basically focus on growing molecule. But I understand we have much bad effect on ROE, ROA if we carry out irresponsible work with redundant things of denominator.

**Interviewer:** It has no problems if a company has financial power like Komatsu however many Japanese manufactures have no choice but to sell something if they try to do it. They don't invest in equipment at all. If so, they'll lose their future although the figure might become better.

**Mr. Anzaki:** Actually, we might be better to dispose of some companies.

**Interviewer:** You've not necessarily been persistent to a figure such as 8% or 10%.

**Mr. Anzaki:** We would rather have certain level of goal to get out of the figure of 2-3% than we've not been persistent to it. Although we can achieve it soon, we realistically manage to reach 8%. Since we have fewer elements, we have difficulty in reestablishing it but unless we can achieve the goal in the fiscal year ending March, 2001, we will postpone the goal a little. However, it's better to pursue a higher goal because Japan has 0% interest. If the figure is 8 or 10% in Japan, it'll become 15-20% in the U.S.

**Interviewer:** You can't stop investing in equipment.

**Mr. Anzaki:** This relates to the condition of the top. General leaders think about their term. In my case, I have various means, for example, if I only increase stock price with stock option, I can concentrate on management of stock price. However, shareholders are so smart that they can see through such game and sell their stock soon for short term when the stock prices increase to go out of the stock market. I want shareholders to keep our stock for a little long term and encourage us because the stock prices might become some-folds in ten years.

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### **Personal system according to the ability and Early-stage selection system**

**Interviewer:** I would like to ask you how to cultivate human resources. I hear you really focus on developing human resources in an early stage.

**Mr. Anzaki:** We always think about how we cultivate the managerial level of people as well as achieve our short-term performance. I try to invest money to develop human resources. Although we can't get good results for a short term, the personnel investment will be the best effective for company if we think it about in a long term because the company can get the highest return, It depends on whether we'll have good staff members, but if we give him precise training. Especially, there is little business school in Japan. I want half of good engineers to develop their skills in research development or production engineering and wanted other half to proceed to be the top or divisional manager. There is no place to educate such people in Japan. If we educate employees in the administrative divisions, we have few places for engineers to perform actively. We want to cultivate half of engineers who have such ability or are interested in management and other half to learn the worldwide invention and development to create world-class cost and production engineering as a professional. We've continued to do this since before. We give them the same treatment as people who become general manager. We put much importance on those people who pursue their favorite field not make them miscellaneous jobs or think about corporate strategy. Meanwhile, we develop engineer who are interested in business or to make him a leader of manufacture with engineering skills. In United States, many people who graduated from business school at their own expense started to work in a small company and often changed job as president to develop the companies bigger. It's impossible for an individual to do such thing in Japan. We don't necessarily give high income to those who learned management at business school. It's good for talented and motivated people who have potential to give a chance of developing his skills in the company and go back again to our company. It's a little bit socialism idea because costs for developing human resources, equipment investment, research and development are not fast-acting investment.

**Interviewer:** It's very interesting that you selected such human resource in an early stage.

**Mr. Anzaki:** I became president at the age of 58. I experienced various things but had little physical strength, vigor intelligence and interests for new things. We have to develop people earlier to create the top at the age of 45. This is what I have to reflect on my past conduct.

**Interviewer:** In that sense, it's important to develop such person who has such feeling at the age of 35.

**Mr. Anzaki:** There were such frank people among successive president and executives of Komatsu. I didn't listen to what they said and often had quarrels with them. There was a good culture to receive myself even if I had quarrels with them. If I worked in the Zaibatsu (financial combine) type industrial group, I stumbled completely along the way.

**Interviewer:** It takes much money to cultivate such person from early period. After selecting and giving him good treatment, but if he drops out what will you do?

**Mr. Anzaki:** It doesn't mean to drop out. There are many people who want to specialize in their profession sense such as developing internal combustion engine or hydraulic pressure of construction machine. Those people would rather not want to be general manager, divisional manager or president therefore we'll give them other internal position.

**Interviewer:** You mean give them another incentive.

**Mr. Anzaki:** We selected the other type of people in the early period but I've never involved in selecting them. Therefore, unfamiliar people will come to me. If I involve there, they'll be on my side or loyal to me. That's why I've never touched there.

**Interviewer:** It means you delegate most of your personnel authority to people.

**Mr. Anzaki:** No, I don't. People around me naturally select such person. In order for them to prevent selecting unsuitable person, I sometimes have time to discuss with him for half a day in a meeting room. It's troublesome some general manager or personnel general manager feel him strange. I know how many people are selected. Some of them are inadequate for the position. I want to develop 500 people in their 30s or 40s for ten years. Some people in their 40s go to business school to keep up with other people.

**Interviewer:** There are two persons who come to our graduate school of Kobe University.

**Mr. Anzaki:** I see. I don't know who goes there and don't care about it. What's important is those who receive a chance study by themselves and become greater. They don't need their guardian. I never involve myself in the selection. The executive in charge of personnel never selects them either. The best thing is that people who are recommended by their juniors and seniors will be chosen. We have candidates for such a position. All candidates aren't necessarily selected.

We used to examine people who wanted to study abroad based on them self-recommendation. We were so easygoing that everybody passed the exam. When they came back, many of them quit the company due to the lax standards. We don't care about such selfish people who leave our company despite their self-recommendation. We might lose a few good employees out of 500 people in ten years, but we have no choice but letting them go. We try to think things happen as they should happen.

**Interviewer:** I thought 500 people were too much, but it's not necessarily too much if we think of other group companies.



**Mr. Anzaki:** There are various good chances to think about how many jobs they can do. We don't essentially go him back the original department. Therefore a presenter has to think about himself well. A person who has good junior staffs and thinks to make them work for him might hesitate to recommend his staffs. However, if there is anyone who wants to do it in his department, he has to do it. Otherwise he'll receive no evaluation. We evaluate our employees from multilateral aspects, so it's important to receive personnel evaluation from general manager. We think about whether we should extend the range of people who are eligible for the selection to junior staffs. If we do so, a revolution might start. I think it's also a good idea.

**Interviewer:** Thank you very much for giving us so much of your precious time.

**[Postscript]**

He talked about the integration system of sales and manufacturing for the severe conditions that the domestic demand decreased to half and I could see there his unique idea that he put much emphasis on employment and absorb related companies and subsidiary into the head office. Furthermore, he talked about structural reform of introducing the advisory board, corporate officer system, early personnel selection system to cultivate human resources and restructuring electronics business. Komatsu also has the same difficulty in the employment issues and getting out of low profitability as Japanese manufacturer faced. Many of them closed their plant, sold their assets or integrated electronics business. In addition to that, they introduced advisory board and corporate officer system. However, Komatsu introduces those system in the original style not follow other companies or American companies and has already started to consider the system deeply a few years before the introduction. Although we didn't describe all about what he said here, he also talked about the high growth period of Japan. He said Japan would rather make use of growth result for their staff income or big housing or making advantageous society system for nurturing than selling products at lower price to increase foreign currency. Although the period finished only for 15 years, he said we should get ethnic knowledge to see through 30-40 years from now. Furthermore, he said with his various experiences in the U.S., Japanese companies just barely win the competition due to the whole good environment throughout Japan however the top of Japanese companies are inferior in the ability to those of American firms. Although the top of Japanese companies seem to give up the employment issue, these thought which bring out the ability of employees, provide them a suitable working place for their ability and also give young staffs a chance might lead them to think about their management attitude again. As he said, he finished reorganizing of construction machine business and just waited the result. He just kicked off to review electronics business. Anzaki, the president of Komatsu, is still expected much about his management.