Yukio Nagashima, President, NTT Data Science Corporation

March, 1964 Graduated from Finace&Business Administration,Waseda University

April, 1964 Joined Nippon Kangyo Bank Ltd.

October, 1969 Entered Pioneer Corporation

July 1974-76 Transferred to Pioneer North America Inc.

June, 1989 General Manager, Production Division

June, 1992 General Manager, Information System

November, 1994 President, Pioneer System Science Co.,Ltd.

May, 1996-98 Chairman, STK （Storage Teck）Japan User Group

May, 1997-2000 Executive head, Fujitsu LS Research Committee

October, 1999-New President, Company Name changed to NTT Data Science Corporation

Start as company functional split-up and aim to be the top in the Japanese IT Consultant industry with free and vigorous corporate culture created by removing administrative thought

More and more companies started to separate the function of personnel department, accounting and information system. However how effective do these separated system company work well? NTT Data Science on this interview was separated from Pioneer, a audio manufacturer as the information system company. However it changed to an IT consulting company not information service company. This is a good example to see what happened in this company split-up. This company removed administrative thought and reduced indirect department to create free and vigorous corporate culture. I would like to ask him such information with the future of IT consulting business.

<u>Started as separated company of Pioneer</u>

Interviewer: Today, Thank you very much for giving us so much of your precious time for this interview of "Business Insight." I've had many opportunities to talk with you for the field research of small group profit system. Today for our readers I'd like to ask you three things. The first thing is that your company was one of the information system divisions of Pioneer before. I heard due to the company split-up, the organization became more active and expanded the business. Could you tell me how your company changes to NTT Data Science? The second thing is that I heard the company became active or indirect divisions were extremely small due to the small group profit system. The third is that I would like to ask your corporate philosophy and business objects. Could you tell me the first thing about how your company was spun off into a separate company?

Mr. Nagashima: Pioneer spun off its Information System Division into a separate company as Pioneer System Science in November, 1994 based on the corporate policy. The reason why the company separate it was because the business was worsening at that time. Pioneer wanted to reduce the load of the head office, especially the indirect division or would rather be better to separate the company for the corporate

management. Therefore, the company decided to do it. We were one of the several divisions of the separated company. It was very difficult to separate functions actually. We found most of such companies including us were managed in less competitive condition. We've never experienced selling our own services to make a profit before, so we didn't have such awareness and realistic idea.

Interviewer: Under such condition, how would you run the company? What corporate philosophy did you have?

Mr. Nagashima: The reason to do my best at that time because I was over 50 and aware of having nothing to do if I went back to the head company in case of failing to do the job. I had such potential idea. I considered what scale the industry had, especially in the world leader of the U.S. Only the military industry of GDP in the U.S exceeded 10% in 1945-46. However, in the IT industry, it exceeded 10% for the consecutive three years and was leading the American economy at that time. I recognized by myself that IT industry was much larger than electronics business of the head company. This is one of the reasons.

The next is that there were economic revolutions in the history of humankind. The first one is agricultural revolution, the second, what is called industrial revolution and the third, IT revolution. The last IT revolution had just started therefore if I did my best to do it, I might have a chance. Looking around me, there was still much room to enter the IT industry in Japan. I met with many tops of the highly profitable companies including Mr. Sato, President of ROHM Co., Ltd. in Kyoto many times and learned how I should manage a company. Especially, I've had personal relationship with him since the collapse of the bubble economy. Since I learned how they became successful very well, I actually had an idea that I wanted to make a highly-profitable and good company even if it was small company. I felt sorry for people who worked together if I didn't have any good result. That's why I did my best to do various things and found a lot of treasures there. (He laughed.)

Undertaking downsizing

Interviewer: How did you actually find the treasure?

Mr. Nagashima: As I told you before, I am not an engineer but could understand things objectively. People pursued downsizing in the world and the performance of CPU was being improved. I almost understood how the system was controlled separately in small machine.

However Pioneer centralized all systems in the head office with seven host computers. I couldn't tell how we should manage the system on my own because I was amateur. I thought I could rationalize the system if I listened to other successful stories to understand it well because I was also a human being. T of an automotive enterprise in the central district of Japan happened to use the same machine as ours and started downsizing

its computer. I asked a sales man in charge of a computer company about it and he told me a good example. I criticized him why he didn't give us such good example earlier and received a proposal to integrate two computers into one computer from him. This caused us to reduce hundreds of millions of cost a year including a registration fee for the software.

Since we were spun off as the functional division, we could give our all charges to user department. The head office provides us each allocated cost at least for six months when it decided the budget. We can surely make a profit if we severely rationalize the system from April. Of course as a result, the cost will be lower, so we have to take the next measure to prevent reducing the profit. Therefore, we have to take measure for the next rationalization. We can make profit from the difference between cost down and competition to lower the cost which worked very well as we expected. As a result, we could centralize the seven host computers to one computer for four years and reduced the cost to 8%, one-twelfth of the past level resulting that we increased much competitiveness.

However, many IT subsidiaries of a major company actually face to decrease the sales if they rationalize the system and can't manage to do it smoothly. We were so lucky that we could expand our business based on the original profits by the rationalization of operational department.

Furthermore, we had never had a loss since we founded so we could increase employee's morale and making me more confident to aggressively do the management.

SAP R/3 Consulting business and start outside sales

The Information System Division had internal system development section. There were about 50 employees and ¥200million or more loss in the section. In fact, our Operational Dept. had no deficit but spent higher cost than the market. We calculated the cost in advance and received the designated allotment expenses (sales price was decided at the time of company split-up) because we exclusively had a job of the parent company.

In short, the prices of Thai and Japanese rice are different. We can do business because we do it only in the market of Japanese rice. If we sell the system outside, we have to decide the price close to Thai rice. On one hand, Development Dept. couldn't operate exclusively because it had other outside competitors however the Information System Dept. mainly developed the system on our own way and could take the initiatives in promoting our professional area in the company. We mainly treated COBOL and wanted to deal with C language or ERP*1 in the satisfactory conventional method. However, if we completed to develop the system a year later than the schedule of two-year term, we wouldn't comply with a request of the times. From the viewpoint of the present management, the organization will change more and more according to the times therefore we have to develop it so quickly.

Interviewer: Your staff members developed the system based on their know-how and applied it to their customer needs before however they changed the original way into the total different theory of short delivery

and low cost. I think there might have many unchangeable cultures. Do you have any difficulty or problem about it? Or do you have some special extensive story that changed their thought?

Mr. Nagashima: There was a General Manager who didn't conceivably want to change the conventional way but he passed away before the company split-up. There was also another manager who was very persistent to it but he was also moved off to another section on some personnel reshuffle.

*1 Enterprise Resource Planning integrates corporate various activities (business deal) in real time to manage corporate resources effectively. SAPR/3 is a representative product.

P74

After a new manager who insisted on introducing the new system came to us, we could surprisingly make smooth of changing the condition. In the year of the split-up we had a shortage of human resources in the System Dept. So, we announced an opportunity for in-house recruitment in Pioneer but no applicants for that. Everybody refused to accept the offer because he didn't want to work in the place like administrative institution. I thought we couldn't develop the section in the future with such bad reputation, however, we had a big change a year after the split-up. We succeeded in introducing SAP R/3 for establishing the sales management system in Pioneer. We were the first company which succeeded in introducing the large scale of SAP system in Japan. There were a few consulting companies to sell it at that time. A famous foreign-affiliated consulting company and SAP tried to sell it to increase the sales. Our staff members were like a golf trainee who lived in a golf course and learned many things for a year. An instructor of SAP requested by Pioneer had almost no experiences therefore our staffs improved their skills better than him. The consulting fee was very expensive. If we had its actual business experiences, we could make enough profit based on our salary. I felt this operational method would make better profit and increase more sales than the previous way

This successful experience of SAP and start of the outside sales enabled the whole employees to understand that we treated footlights technology and we could become the top division to be requested for in-house staff recruitment. I was very glad to hear that. Most engineers entered the company with their request to be assigned in the audio system design or development of Pioneer. When they were assigned in the System Dept., 75% of them had a request that they wanted to move to the division relating to audio. However, our department was accepted by in-house staff members and could have human resources who voluntarily came to our division. This was the first step to the present success.

Interviewer: You focused on consulting SAP as a product. You might have difficulty in finding customers to develop the system with the product in 1995.

Mr. Nagashima: As you said, we couldn't sell it at the beginning with the name of Pioneer System Science.

4

Few people knew us therefore we suffered from sales activity. However, fortunately there were many failure cases by foreign-affiliated consulting company and the domestic vendors, and we helped them in the first five cases. The first customer was a company to sell copy machine. A famous foreign-affiliated vendor failed to introduce it and left it unattended. SAP itself had a trouble in that situation and introduced the company to us because we knew SAP very well. When I asked our staff members to do it, they told me that they experienced doing it before and could easily do it. They told me it was very easy to do it. They were confident to do it because they introduced it before against various complaints from people of Pioneer (He laughed.) and they told me that we can do it only in Japanese.*2 Therefore, we tried to do the deal. It was very lucky because the company had various group companies and told us to introduce it in their other companies including Watch Division. When we finished doing three cases, our staff members became very confident to do it. They said, "An affiliated company requested expensive fee but couldn't do such easy job." After that, SAP asked us again to solve a problem for camera manufacturer in Kansai. I thought we played a role of relieving a trouble or extinguishing a fire for other companies, I mean we were like a "Fire Engine". However, we couldn't be in the position to choose a job at that time, so I told my employees to accept it without saying anything. Finally, we did the same kind of jobs in five companies. While we were doing this, we could sell it a little by little. People of SAP heard about it and recognized us as a good reliable company to work well at reasonable cost. People started to tell that they had better to ask us whenever they wanted to introduce SAP. That's how we put our business on the track.

*2 Staff members directly asked German or American offices to solve difficult specifications.

P75

Think about the timing to enter the market

When we succeeded in starting up business, I found to have a shortage of three important points for corporate management, human resources, products and money. When I thought about how we entered the market, I felt strategy and the timing to enter less competitive and niche market which all highly profitable companies in Kyoto aimed to enter were very important. It's very important for the top to know the period to enter the market. I had to understand it as a big impact to analyze the abilities of our company and competitor and competitive condition. We steadily did the business resulting that we succeeded it one after another. We are so lucky. General people would rather do their best to work in a team even if their personal deviation score is 5 or 10 lower than people who ruin their efforts each other. Our general managers told me that our employees made better use of their time when they discussed any issue after the company split-up. When they faced a problem, they continued to discuss it without thinking of their time before however they had had no such thing recently. If they have any problem, they try to think like that, what the most reasonable or earliest way for customers is or how customer can make better use of it or how they can make profit. After they decide how to do, they start to work soon.

Interviewer: The period to enter the market is surely very important element. If it's too early, the situation will be worse or too late, you could have no chance to do it. It's very important to see it. Furthermore, I think it's more important to see what field is promising.

Mr. Nagashima: Yes. It's one of the biggest corporate factors. How we should think about time is also my task as the top. I have to take a broad picture of it as the 4th key point in addition to the three factors for corporate management. I have to decide the timing to join the market with the ability of our company and competitors. Mr.Ookawa, CSK who passed away talked about what field would be promising like that; "For ten years since I founded a company, I could understand the roadmap for the next ten years if I went abroad once a year." However, he asked me a year before he was gone how many times I would go abroad a year. I told him three or four times. Then, he told me it was too few. He also said that he went there every month but didn't completely know the future and what field would be promising even if he touched, listened to what people said and looked at various things by himself. From this viewpoint, I went to the U.S. three or four times a year to look around the condition and at the same time saw the Japanese market. I bought data about it, too. I hear about various things from many people, I felt Japanese aren't good at working in a strategic way especially there are few people to do business strategically in a subsidiary of major company. In that sense, we did our strategic business while seeing the future precisely. Therefore, we make the medium three-year plan every year and use one part of the plan as an annual plan. We also make budget and an investment plan on the medium-term-plan basis and focus on strategy and review annual performance without revising each annual budget during the medium term.

In addition to that, we tend to irrationally start new business with tenacity pathos and motivation. It's very difficult to make the foundation for new business, so we have to make the system to rationalize it calmly.

We try to start business with a word of retreat which imperial army didn't have.

Also, we have to tackle it through a trial and error process not one-shot deal. In order to grow the company, we have to boot the odds in one side. Without corporate backup and a leader who can target what business he should do and see how it would be acceptable in the market, we can't succeed in doing new business. Unless we experience it in practice, we can't succeed in doing it. I think this is good system people can comfortably challenge and become highly successful.

Changed to NTT Data Science

Interviewer: I think it's exactly true. You started to talk about your corporate philosophy but haven't finished all stories yet. I haven't heard about how Pioneer System Science changed into NTT Data Science.

Mr. Nagashima: I see. As I told you, we increased the outside sales. It reached about a half of our total sales

and we could have no less than 20 clients for SAP system. This time, some consultant companies visited us to check whether Pioneer sold our stock. Actually about eight companies asked me to take a few employees or asked me alone to merge with them and told me various things. As I told you before, when we saw the U.S., I felt how large possibility the IT industry had. We are subsidiary close to an amateur, nonprofessional. We have to change the condition better than now to become a real professional. If we grow rapidly there, we can go to the larger market and I thought we could do it. When I thought about it, we received such proposal.

We requested the head office to promote people who worked hard and had good results as a manager and raise their salary. Since our Division was a side division, such application has never passed through. If I negotiate it very hard many times, it might be passed. I thought what I could reward for them as a company although I was so appreciated that they could contribute to our division like that.

The standard salary in the IT industry was higher than that of hardware manufacturer. Some companies tried to draft our staff members. They were so talented that I felt a sense of crisis they would be bought out separately in the future. I had such a sense of crisis. At that time, I had the previous eight stories. I thought to go there alone. However, if we can receive positive conditions for everybody, we had better to be bought out including all organizations or joined the capital. I knew various things such as characteristics of company and people in charge. I put emphasis on seeing whether those people in charge were reliable or whether they were earnest or could work quickly. People of NTT Data gave me a quick response within a few hours when I emailed them. I thought the company with such people must be good. The previous company was a hard maker and thought software as an additional product. I thought the parent company could understand our business because it did software business. When I asked the company how we could manage the company, it told us that it would expand ERP business freely and largely with us and treat our employees well. I thought such good easy-to-work conditions would enable us to build our future depending on our ability. It was a chance for us because we came here from a great distance. Therefore I decided to talk about it to everybody. Almost all of our staff members agreed it and gave Pioneer a notice of registration to move to a new company.

Interviewer: This may be off the record. Did you have any difficulty in convincing Pioneer to do so?

Mr. Nagashima: Generally speaking, if a parent company doesn't think a subsidiary as non-core business, the key point of the condition depends on the sales price. As I told you, we were non-core business for Pioneer, so you could imagine it. Furthermore, it was very welcome to make profit by selling us which gave other subsidiaries a good influence.

Interviewer: What allocation did you receive?

Mr. Nagashima: NTT Data　acquired 70% of the share and Pioneer 30%.

Interviewer: For personnel organization, was it almost the same as the share?

Mr. Nagashima: We only have seven people who came from NTT Data now. Next year, the number of staff member will reduce to two. Therefore, we can't expect those people and have to develop our business mainly by our original staff members. There is large difference between the problems on our business and management by the changes and the proposal by NTT Data. However, we're going to overcome them with our growth and efforts to hire human resources.

Activation by small-group merit system

Interviewer: I understood how the present NTT Data Science was born, had organizational changes and business expansion by the functional split-up. Today's another theme is that your company introduced small-managerial-group merit system. In addition to the functional split-up, the introduction of the system enabled you to activate the organization. Could you tell me about it with your corporate philosophy?

Mr. Nagashima: People are interested in foreign-affiliated companies in the recent recruitment trend. The reason that Japanese companies are unpopular is because they don't focus on an individual. Highly profitable companies in Kyoto quantitatively not qualitatively focus on understanding and evaluating who contributes to them, what and where they do. In order to activate Japanese companies, the conventional lifetime employment seniority systems and how personnel department works are big issue to be discussed. In addition to that, it's also important to focus on administrative accounting. They have to understand not only gain and loss generally but also know who or which group work very well. They have to connect it to quantitative evaluation in order to make the most of human resources. I think this turning point would be a chance to progress the functional split-up to divisional. It is important for a highly intelligent company like us to maximize the ability of individuals. We have to evaluate our employees as objective, transparent and persuasive as we can. I mean we have to focus on how they contribute to our company and evaluate it on the individual basis. If we have difficulty in evaluating an individual, we try to focus on at least group or minimum unit. That's why we made the system to gain profit in a small group. However, we have to avoid the condition such case of foreign-affiliated company where people who aren't evaluated have to leave the office because of the large evaluation difference between individuals. We try to evaluate an individual on the team play or small group basis and arrange the system to the original Japanese style. The most important thing is to have a good result in the whole company. The next is to do it in team. Furthermore, each individual has to do his best to achieve the objective. In order to quantitatively functionalize the system clearly, we focus on the minimum unit of divisional manager and project manager. If you think our system like this, you can understand it very well.

Interviewer: How do you connect the evaluation to administrative accounting system? After applying the system, did you have any difference in each individual?

Mr. Nagashima: We changed the wage structure into the annual salary system when we joined NTT Data from Pioneer. On the annual salary basis, we'll know how our employees work at the end of the term. I asked the parent company to return a quarter of after tax profit to them because we emphasized human resources. The reason I decided to return it was because other quarter was for dividend, investment and reserve for future. We intentionally set the evaluation gap between the maximum and minimum limit of one-forth was about 20% in order to avoid rapid changes when we joined NTT Data Science. This year, we changed it to double. We also announce gain and loss of the evaluation standard by each division. A person in charge of the personnel committee and official organization evaluate it based on the standard so that all employees can understand it easily. If we decide the evaluation range, we'll know how all employees are evaluated automatically. In addition to that, we will have wide difference in the figure next year.

Interviewer: How will you decide their bonus with working achievement of administrative accounting?

Mr. Nagashima: We'll give them one quarter of after tax profit as the basic bonus in June. We separate the bonus into three categories. One-third of it is the whole achievement evaluation on the wage basis. We always have bonus even if it is a few, no case of zero because they have at least better result than last year. The other one-third depends on how the group achieves the objective. For example, World Cup Series, if the team loses in a preliminary match, it can't get through to a semifinal. We allocate good bonus to each member of division or project with good result. The rest depends on an individual match. We target at all employees as an object of the bonus and give a person who worked very hard more. Each leader who does his best to work can get special bonus within the range of the one-third of the amount ¥50,000 for manager ¥100,000 for general manager and ¥200,000 for president. People who will get this special bonus feel happy. We'll increase this next year.

Interviewer: You understand how each individual and division achieves their objective clearly because you mainly emphasize your employees as an individual. Do you have any other reason to make such system?

Mr.Nagashima: Yes, we have. A good company has two conditions of good management and competitive products in the market. All company doesn't have good condition at the beginning. With its good management system, it can have good human resources as a result have competitive products in the market. Therefore, I focus on how I make good management system. As I told you before, our company put much emphasis on human resources. When we think about how our employees work well in our company, we mainly focus on quantitative evaluation as well as qualitative. Therefore, we minimized the indirect department of the Personnel Dept. and Accounting.

9

Remove administrative logic

Interviewer: It means you don't manage organization on the logic of administrative department. I hear NTT Data Science had almost no indirect department.

Mr. Nagashima: Generally speaking, a subsidiary of leading company, especially a company which functional division is spun off into a separate company doesn't grow too much. The feature is that it still manages the company with the conventional constitution, management sense and heavy load of large company. For example, the company takes a boat from abattleship. It has a captain, the first mate officer and officer on the boat and few persons to paddle it. In that sense, it has to have light management division.

Why we have to manage the division is we're worried about the result unless we care about it. We have to have the management system to see the result. However, despite the company has a lot of administrative departments.it cat not get result smoothly.

Computer is very easy. If we input some figure, we can get the result until the next day. The problem is whether we mistake to input figure. If we check it and give it feedback to department in charge, make the system to get high quality of result on the day after tomorrow and see the gain and loss of the next three months from there, we'll know the condition of the administrative department. With such system, we can judge anything quickly and precisely to prevent any mistake.

The previous parent company gave us the monthly report around the 20th. We open the monthly management meeting after receiving it, even if the top tells some divisions which decreased the sale last month to try to work hard this month however, there are only a few business days. Taking an example of a baseball game, we're on the back of the 7th game. If a head coach says, "We have 7th difference of the score, so hit a ball." But he can't do it. They can't manage to win the game. In short, it's important to work quickly.

We try to keep administration cost 3% less of annual sales amount. We're an IT company, so we try to use information infrastructure. In addition to that, we delegate an authority to the junior level completely. I think it's possible with such ideas that "Authority gives us responsibility" and "We have to know our result first".

I learned various things from highly profitable companies in Kyoto such as there are no good companies with administration oriented company including an idea that "A good company has no personnel department with strong authority." Same as defense spending, we set the maximum limit of the administration expenses of head office as no more than 3% of the sales.

Interviewer: If you don't know how the figure comes out, you can't take any action for it because you don't know how to solve it.

Mr. Nagashima: In such sense, we have few difficulties in doing that. Since we take a boat, we can see ahead of the other side. Therefore, we would rather take such system from the beginning. If the third boats get behind, we have to know the reasons. For example, the ship leaks, sinks, or is stuck with something. I want our employees to see like this. When I say, "Why did the third boat lag behind other boats?" Everybody has to

10

know it. I often say preparation is the most important point at school,but review on the management. We have to review what we do soon. There is a problem if we can't correct it.

We easily manage our company. In fact, we have fivefold sales as much as break-even point. Simply saying our fixed expense is more than 70% for personnel cost, 20% or less for office rent, which accounts for almost all of the fixed expenses. If we have 50 employees which average annual salary is ¥8 million and the annual is ¥400million. Monthly wage is ¥33million. The monthly rent is ¥6million. . It's impossible but if 50 staff members go to Osaka or Kobe and back twice a month by Shinkansen, it takes ¥20,000 for a round-trip ticket of Shinkansen and ¥10,000 for accommodation a day and takes ¥30,000 in total. It takes ¥3 million for a hundred times in total. If we calculate it too much, it will take ¥42 million. The monthly sales are ¥200 million, so how much does it cost? (He laughed.) In that sense, we comparatively manage the company well. Each general manager knows his own fixed expenses of the division in that situation. If the division has ten people, it'll be ¥80 million a year, about ¥7million a month. The rent is no more than ¥10million, it'll take ¥8million a month in total. Therefore, the division will set the annual sales as ¥10million. It is very easy to calculate. I think we have to understand each manager like this profit structure. However, general companies have a lot of expenses of indirect division. In fact only two persons row a boat but it has several passengers. Unless we reduce them from the indirect division, rowers have no energy to row the boat. What we want to say is that few administrations cause result in giving an authority. An authority gives responsibility. If the result that they worked hard is almost the same as company's result, they can't excuse and can't help having good result.

Interviewer: In other companies, many people don't want to input the sales and cost because it's not their job.(He laughed.)

Mr.Nagashima: I see. However if they can get salary for it, they'll do it. I think if they can get the result, they'll work harder than we expected. If so, the system is important. I understand the task is troublesome. I know people on site really work hard. This time, I returned more bonuses to them than last year's. Especially a leader doesn't choose his job because he will be evaluated with his own job as well as the result of his junior staffs and group job. In our company, everybody would rather feel pleased that he could know the result.

Interviewer: They should be better to know it. They prepare for going away from that situation despite rowers work very hard however one day they turn back and know they face basin of a waterfall. It's very troublesome. It's essential to see the result, By the way how about the result?

Mr. Nagashima: The first term is very good. A person who is general manager at the age of 42 has a good result and will have about ¥4million as this bonus. A woman who graduated from junior college will have ¥1.5million which is more than that previous bonus. Some people will have three times more than that of last year. They would rather be pleased to do such job. It doesn't take too much time to do it. They would rather be important to know the result.

Interviewer: Everybody thinks it's natural to do it by himself. (He laughed.)

Mr. Nagashima: When people play golf and bowling, they want to know their own score. So if their good result connects to their own or their junior staffs' evaluation and they can easily know the result with good system, they do it aggressively by themselves. Furthermore, the introduction of the method that many people could see the result enabled to increase in-house transparency and sense of fairness as a result make the environment to prevent unfairness.

Aim to become a company with a presence in the market

Interviewer: The last question is about your corporate philosophy. Please tell me about it including how you will make NTT Data Science in the future. The present main business of your company is SAP consultation. You have other businesses, too. So, please tell me the future development.

Mr. Nagashima: What I think the most is that I want to establish a presence in the market, become a highly profitable and promising company with good corporate identity. In order to do it, first I want to create the company that any great people want to enter. The most important thing for us is human resources. It is very important for the top of semiconductor companies to invest in equipment of the factory or invest ¥300 billion We always think about what human resources we'll hire or come to our company. We're very surprised that so many great people work here now. Conversely saying, unless we develop our company in this condition, I have no ability. I'm suffering from how I make a company to make these people satisfied.

Next, in order to become have a presence in the market, we have to have core competence. Without it in the market, we can't make any profit. In order to have it there, we have to keep the top or the second item in the current market. We have two businesses to have profitability. The first thing is highly evaluated as basis consultant business*3 which has the top scale, lineup in the industry, extremely high technological level and many strong vender's channel.

P82

*3 We discuss, decide how to implement, introduce and establish R/3 ●● system(necessary hardware, OS, network, EDI and printing tool, automatic check and application tool for operate and manage R/3 system) from the technological and systematic viewpoint and introduce, establish and achieve it.

12

<u>Business Model Consulting</u>

The second thing is template of package business. I have a concept of software factory by myself. It means we choose and propose "core software" in appliance with each customer's business style to make the system at the reasonable cost. It's a concept of software factory. Therefore, I think how quick and efficient we make the system without any functional failure. The most suitable for this concept is SAP template. We call it model system. In Japan, a vendor sells it as a product but sells only three very well among sixty kinds of software. Two of three kinds of software are our products. In order to increase the sales, we want to increase items, strengthen core competence completely to start business model and consulting business.

Furthermore, we have to think about how to keep the present foundation of profitability and develop it in the future. Therefore, we want to develop SCM*4 and CRM*5 based on SAP. In order to do SCM, we have to take various measures to secure good human resources with great ability of math.

*4 Supply Chain Management integrates from manufactures to retailer through the network, companies share information of sales, production and inventory to arrange delivery date or reduce inventory.

*5 Customer Relationships Management manages the relationship between customers with understanding customer needs.

Interviewer: What sales ratio of the three businesses, Basis, SAP template and the conventional SAP consultation is?

Mr. Nagashima: The ratio is about 50% for consultation, 30% for template and 20% for basis. We sell Basis on the constant basis and will have one-third of the total. The ratio will be 40%, 30% and 30% respectively in the next term, so we can keep the balance

.

Interviewer: The common feature of the three pillars is R/3 base. Do you have any other IT business?

Mr. Nagashima: In fact, it's very risky to rely too much on R/3 of ERP like this. In the sense, I proposed we should more emphasis on other package software. However, when I went to Sun Microsystems in the U.S. it had a concept of ERP=SAP. We proposed that we focus on other package software in order to decentralize our crisis. However, this has become de facto standard. We want to develop CRM and SCM after ERP business and aim to be the top in the market. ERP business will become slowdown in the late of next year. CRM and SCM will start to increase gradually and the both business scale will be the same as ERP. There are almost no other companies to start this business. It's very difficult for them to implement it. Some people say only the top level of people at university or graduated from doctor course of mathematic can do that. We're looking for such people so that we can enter the field.

Consulting based on the Japanese business model

Interviewer: What I'm very interested and impressed the most in your story is that you always think about the future to be the top in the IT business where foreign-affiliated companies dominate the market. Could you tell me about it in detail?

Mr. Nagashima: As I might talk to you, people can't do consulting business unless they understand the management. The conventional information system division mainly developed IT technology. Foreign-affiliated companies understand the customer's management and give them presentation.

On one hand,Monozukuri, manufacturing products in the manufacturing industry are more advanced in Japan. People who know Japanese management style had better consult those companies. Therefore, people who understand the management of manufactures and what working process are suitable for the system have to do consulting business in Japan. In order to do so, we have to know Japanese know-how not foreign-affiliated know-how. That's why I think we can do this business in Japan.

In consulting business, human resources are the most important. In the famous foreign-affiliated companies, the rate of people who entered there ten years ago and still kept working didn't reach to 10%. 90% of them quit there on their way. I call it, "Personnel Consuming-style Management". People who forced to leave the office may be terrible. For example, Takanohana (Sumou)won all games until the 13th but was suddenly said to leave if he got injured. He'll be sure to be unsatisfied with the situation. In that sense, we have to have a good point of Japanese style management in this industry.

We have a policy to be the top as a Japanese IT consulting company in the industry. Whether we can achieve it depends on whether we have good human resources. Because we put much emphasis on human resources as I told you before. We have great staff members and ask them the reason to choose our company. They said no president asked them about it.(He laughed.) Not what are you going to do in our company? But why did you choose our company? Nobody asks this question except for you."(He laughed.) I'm really worried about the reason.

The first reason to choose us is because they want to be an IT consultant. The second reason is that they think whether they can develop their careers. We have the largest number of project results and projects among 100 companies, so everybody can experience various things which lead to develop their careers.

One more reason is corporate atmosphere. We have free and open-minded environment, actually we have conditions that everybody takes his responsibility for each performance. We don't have to have strange relationship because we mainly focus on quantitative evaluation system. We have to take responsibility for our each performance. As I told you before, everybody can easily understand each result.

We'll make new system that senior staff can choose a project member and also the junior staff can have the right to refuse it in the future. In Japan, senior staffs weren't criticized by the junior. They can't work well if the junior staff follows him. Sony has the good system like this. We haven't had enough confidence to do it but

14

whether we can do it or not depends on our open-minded and good corporate identity. We want to compete with foreign-affiliated company to keep our corporate identity but I'm not sure that I can continue to be President until then.(He laughed.)

Interviewer: I feel you're going to reach the point gradually whenever I hear from your story.

Mr. Nagashima: The sales are increasing more than before but still not enough. In fact, it rises to 185% in this term. The greatest feature is earnings are two to three times more than that of others. We have 41 staff members in the previous term but 48 in this term. We increased only 7 staffs but could increase the sales to no more than ¥1 billion. I think the present system is suitable for everybody (He laughed.). We had an increase of the sales but few increase of the fixed expense. The profit increased to 3.8 times. We could have better start in this term than last term. In fact, I think it is because this industry is better than others. There are few independent subsidiary of the leading company like us. I feel it better to be confident of our management. (He laughed.)

Interviewer: I'm sorry we overran the schedule. (He laughed.) We could almost hear about what we wanted to ask you. Thank you very much for giving us so much of your precious time.

[Postscript]

I had many opportunities to have interview with him about company functional split-up and small-group merit system. He talked about it including his corporate philosophy on this interview. I felt his enthusiasm as the top runner of IT consulting company to create free and vigorous corporate culture. We intended to have his interview for an hour and half but overran an hour.