



# Quest for “Excellence in Management”

2018.04  
Vol.10

## A Dialogue on “The Essence of Work Style Reform: Lessons from a Pioneer”

Yuji Otsuka (President and CEO, Otsuka Corporation) × Yasunori Nakagami (CEO, Misaki Capital Inc.)



## Foreword for releasing the 10th issue of Quest for “Excellence in Management”

To commemorate our 10th edition of Misaki Newsletter, we would like to focus this edition on “work style reform”, which has become a hot topic in recent years. On this note, I invite Mr. Yuji Otsuka, President and CEO of Otsuka Corporation, to share his experiences.

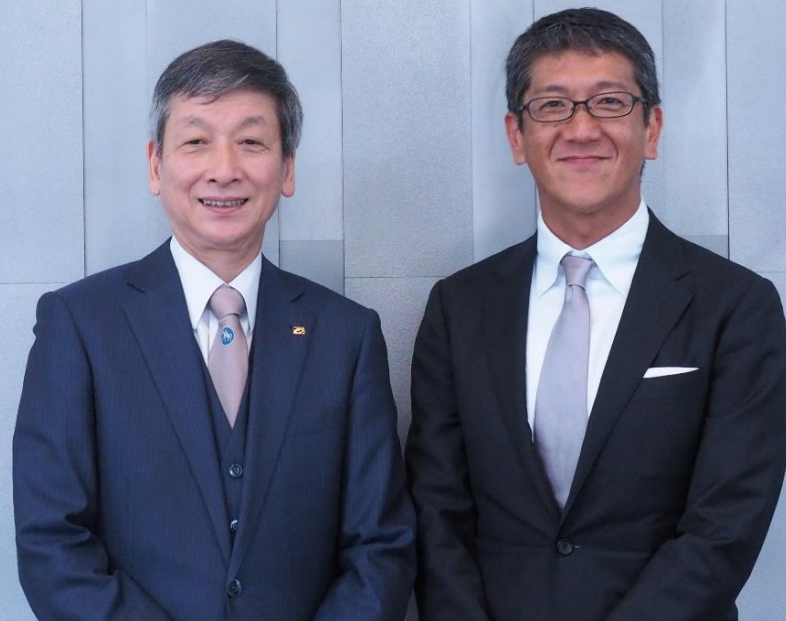
For some of you, Otsuka Corporation might be characterized as a typical “full-fledged sales force organization” in the arena of distributing multifunctional copiers, PCs and servers. These companies are often stereotyped as exploiting their employees with massive overtime.

However, that stereotype is a story of the past. Just a quick look at Otsuka Corporation’s data tells you that over the past 15 years the company increased annual holidays by 10 days and the average salary by 50%. The background behind this is due to their astonishing improvement in labor productivity represented by the fact that sales per employee have doubled and operating profit per employee has six folded. The company had also terminated the retirement age system for managers many years ago, therefore had been fully utilizing those senior employees with abundant expertise.

While that all sounds like magic to those who knew Otsuka Corporation from the past, President Otsuka continuously says that “I have done what is expected of me, and nothing special”. However, my job is to gain insights from what an interviewee says. So I repeated my questions insistently and I finally began to see the formula behind their unique scientific management and their obsession with maximizing profits from its existing business domain (which, from a quick glance does not appear to be fertile.)

I reckon that there are many CEOs who understand in their mind that “work style reform” is necessary but are daunted by the obstacles that they face in reality. Nevertheless, I believe we can all be enlightened from what President Otsuka has brought forth in this newsletter. Happy reading.

Yasunori Nakagami, CEO  
Misaki Capital Inc.



## “The Essence of Work Style Reform: Lessons from a Pioneer”

Yuji Otsuka (President and CEO, Otsuka Corporation) × Yasunori Nakagami (CEO, Misaki Capital Inc.)

※This dialogue was held in September 2017.

### Once “An exploitative enterprise” is now a pioneer of “work style reform”

**Nakagami:** My relationship with President Otsuka started even before I founded Misaki Capital. Since then I have always learned a lot from the way you run your business.

Today, as always, I have tons of questions to ask you, but in this interview I want to focus on the “work style reform”—a very hot topic these days.

In the past, Otsuka Corporation was viewed as a “sales-dominated” company, which was often stereotyped as an “exploitative enterprise”. But now it has turned into a company that takes pride in the astonishingly high labor productivity as a result of implementing measures such as eliminating unpaid overtime work and encouraging work sharing.

**Otsuka:** When I returned to Otsuka Corporation (after leaving once), the company’s annual sales was 200 billion yen. Today it exceeds 600 billion yen. Yet, the number of employees has not increased. I am not certain if such achievements deserve to be called “reform”. From the perspective of productivity improvement and cost reduction, however, it might well be called a result of “work style reform”.

**Nakagami:** Thank you for that humble remark, so typical of you (laughter).

Referring to the actual data, post 2000, the sales per employee have almost doubled to 75 million yen and operating profit per employee has six folded to 4.65 million yen. While these data alone are amazing, the competitors’ average sales and operating profit per employee in the multifunction copier-related manufacturing industry are only 20 million yen and 1.15 million yen, respectively. Otsuka Corporation is not a company that can create manufacturing value added, and yet it has achieved sales and

operating profit per employee that are nearly four times more than those of its competitors. This very fact tells you how productive Otsuka Corporation is.

That's not the end of the story. You increased the number of annual holidays by 10 days, and salary by 50%, thereby improved employee satisfaction and reduced the employee turnover rate from 10% to about 3%. This is exactly what the "work style reform" should aim for.

**Otsuka:** When I assumed my role as CEO, there were many senior executives who were brought up during the high growth period of the company. Therefore, their perception was that "You cannot increase sales without hiring more people". However, I instinctively felt that we could expand sales without increasing workforce.

In fact, in response to a request from a manager for an increase in headcount, I returned him with a question: "Which do you prefer, increasing the number of your subordinates or increasing your bonus?" Then he responded by saying: "Let me think about it", and after two months' time, he came back and reported to me: "I've managed to work it out".

After several reiteration of the same situation, no one now brings up the issue of hiring additional employees. It is easier than you think for the company to manage without increasing workforce. We can work it out somehow.

**Nakagami:** All right. Today, I am going to uncover the secret behind your comment: "We can work it out somehow". So allow me to be very inquisitive about you and your company.

## |"Streamlining the work process by leveraging IT—a management weapon"

**Otsuka:** Since I assumed the role of CEO, I have always felt there were lots of inefficiencies in the company.

Otsuka Corporation started its business from selling copy machines. While our competitors focused on winning mandates from large corporations, we have grown our business by focusing on small and medium-sized businesses. Our customers are always just a phone call away, therefore aimed to provide the best localized service such as delivering photosensitive papers and repairing their machines whenever they needed it. However, as a result of establishing multiple branches across Japan to provide such tailored services, we ended up with 300 sales offices that operated autonomously and found ourselves in the situation where we were unable to see the company holistically.

Back then, the databases were not integrated. Each sales office had its own operating procedures and accounting policies. Because the processes were not streamlined, many functions were duplicated by each sales office. Admittedly, we had poor inventory and credit controls as a firm.

As we had no insight of the consolidated information across the firm, what was then a profitability of 7 billion yen in 1990

plummeted to 0.5 billion yen by 1992 when I returned to the company. Fully aware of the seriousness of the problem, we set up a project team and made efforts for years to find the best way to run our business. We call this endeavor the "Grand Strategy Project".

However, we did nothing special to address the issues. First of all, we redesigned the core system so that the system only allows sales to be inputted in accordance with firm accounting principles. We eliminated the local rules for revenue recognition applicable at each offices. At the same time, we have centralized the administrative function which had been previously carried out



separately at each office so that more focus/time can be put on sales and marketing activities. We built a model much like a head office and branches of a bank.

**Nakagami:** So, you undertook the business process reengineering (BPR) by disassembling the decentralized operations and then re-integrating them accordingly as well as unifying the processes undertaken amongst each sales office to simplify the functions. I know that improvement in labor productivity will never be achieved without analyzing the actual tasks and simplifying them.

You have also mentioned that you have revamped the accounting system. I think that investing in IT played an important role in this entire process.

**Otsuka:** At that time, the firm's IT infrastructure was not very robust. We extended the leasing contract of certain machines, soon to find out that there was not enough spec to support the expanding business. We also experienced cases where a broken equipment shut down the entire system.

As a back up plan, we decided to test and replace the core system with the PC-LAN system. As a result, the processing speed of the system became overwhelmingly faster than that of the general-purpose machine. After that, we replaced the PC-LAN system with the current in-house system as the official version. Thus we took a two-step approach to replacing our entire IT system.

**Nakagami:** When I worked as a management consultant, I had opportunities to interview many U.S. IT companies and I was shocked to find huge difference between Japan and the U.S. when it comes to Information Technology.

At that time Japanese companies developed their own software on mainframes. On the other hand, U.S. companies were already using vendor systems and package software to dramatically reduce costs.

At that time Japanese companies customized their systems by incorporating "local rules" of each department. The U.S. companies, on the other hand, aligned their business processes with the package software, thereby simplified their operations. I think that BPR should be implemented in tandem with IT investment. Japanese companies still lag far behind the U.S. counterparts on this point.

**Otsuka:** IT is a management weapon. However, simply using IT to replicate existing process will not increase productivity. Winning the game depends on whether you can utilize IT to enhance the current process.

Otsuka Corporation has a sales support system called "SPR." Since I launched the Grand Strategy Project, I have embraced the idea of "data-driven marketing". No matter which industry your company belongs to, cold calls meets with little success. You can usually find only one or two prospects out of 100 who are willing to listen to your sales pitch. The number is more or less the same across any industry.

However, if you approach those customers who have already purchased copy machines from you in the past, your batting average will increase. If you approach customers who showed interest in your company at a trade show, your batting average will increase even more. Marketing and sales efforts leveraging IT and data is powerful. A hundred sales persons equipped with relevant data can effectively achieve results worth 150 or even 200 sales persons.

This is the strength of using IT & data.

**Nakagami:** As I thought, IT is definitely one of the secrets of success for Otsuka Corporation.

However, even the best developed IT infrastructure will not work well without technically adept users. Am I right?

**Otsuka:** Correct. We introduced a groupware system around the same time as we replaced the core system. By 1996 I believe we already had an infrastructure in place for every employee to have their own PC. However, at that point, there were many employees who did not even know how to type.

Disturbed at the situation, I underwent an internal exam to raise the overall level of our employees' IT literacy. All of our officers and employees were required to take the exam until they passed. It took half a year for all the officers and employees to pass the exam. I went so far as to post the results showing the ranking based on their exam performance.

Also, we prohibited the use of fax as a mean of internal communication. All the officers and employees were required to use only

email to announce any changes in time and venue of internal meetings. Those who were unfamiliar with how to use the groupware system were unable to join the meeting, and this very fact revealed their level of IT literacy. This method worked well since it forced the awareness amongst even the executives who now had to use PC to communicate.

**Nakagami:** I understand that without the “mindset reform” of the employees, this IT-driven improvement in productivity would not have been successful.

## **| Promoting “work style reform” requires changes in HR and corporate culture.**

**Nakagami:** Now, let me touch upon your HR initiatives. You have taken various measures including the termination of the deemed overtime allowance system in 2007. All the measures you have taken seem to overlap on the themes of “work style reform”.

**Otsuka:** Well, let me take the case of overtime to represent my thoughts on the HR initiatives. To me, it sounds straightforward to pay overtime allowance in full and then think about how to reduce overtime rather than using our energy to irrationally justify the deemed overtime allowance system.

In that sense, we review the amount of overtime as one performance indicator, and any material change helps us make appropriate decisions on human resource allocation and personnel changes.

**Nakagami:** So you tried to reduce overtime by simply making visible the amount of overtime cost incurred.

**Otsuka:** We delegate to the respective managers of each departments on the necessity of any overtime work but if we find a case in which overtime hours submitted differs significantly from what can be seen as evidenced by log-off times of PC system and/or entry/exit records in the office, the case will be forwarded to Internal Audit for further review. If the Internal Audit reveals that managers had their staff work overtime or staff worked overtime without obtaining prior permission, such a case will be subject to disciplinary action.

It is strange to tell employees who wants to work longer for their own satisfaction to not work overtime. However, we have made the above rule to discontinue unreasonable overtime work practice.

**Nakagami:** You have changed the corporate culture so that working long hours is no longer the norm, and I understand that this change was one of the important factors of your “work style reform”.

**Otsuka:** Currently our employees can enjoy 10 extra vacation days compared to before. That is because the Company has achieved a 10% increase in annual productivity, which means that the output is 13 months’ worth in a period of 12 months. Therefore, the employees are compensated for half of that output by means of additional 10 days in paid leave.

**Nakagami:** The Company has not only increased the number of annual holidays, but also increased the average salary by 50 percent over the last 10 years. It seems to me that the profit generated through the productivity increase is shared amongst the company and its employees in quite a fair manner.

**Otsuka:** In regards to salary, I wanted to make it a point that sufficient base salary is being paid to the employees so that they maintain a stable lifestyle. Bonus and retirement allowances which are on top of that are linked to performance. Annual salaries and promotion also depend on their performances. If the employees outperform, they will be compensated. However, it could also work the other way around. There is no inequality in the system.

**Nakagami:** I think that the performance-linked bonus system and the clear promotion and demotion rules are vital for productivity improvement. Talking about rules, I understand that the company once introduced the retirement age system for managers, but then terminated it in 2009.

**Otsuka:** We have once contemplated about putting age-limit for managers whereby the company would release them from all managerial responsibilities when they became fifty years old, but decided against it.

If a person was lazy but happened to be in the managerial role because of his seniority in age, the person should be criticized. But if a manager is over fifty and doing a wonderful job, we should be providing the title that the manager deserves irrespective of age.

However, when we judge that the performance on the same role is deteriorating, then it's time for the person to have another job with less responsibility and workload. At the same time the salary and title will be reviewed accordingly. I think that is more reasonable both for the company and employees.

We therefore changed the retirement allowance system to treat the employees fairly and equitably. In the past, the amount of retirement allowance was decided based on the rank of your last job title. Whereas now, a point system has been introduced to compile employees' contribution with points during their entire tenure at the firm to fairly compute the amount of their retirement allowance.

**Nakagami:** I can appreciate that you have been early to address on a theme that we currently face; utilizing resources of elderlies.

## Enhancing capability of the entire organization would turn “poor performers” into “gold mines”.

**Nakagami:** Let us continue on the topic of human resources. I understand Otsuka Corporation takes an interesting approach to education as well.

**Otsuka:** No matter how carefully you organize a team, you cannot avoid having a team consisting of top, average and poor performers. Looking back to my days when I was part of the Sales Department, I saw top performers delivering results on their own, and average performers delivering results if guided properly, but poor performers lack the will to deliver any results.

However, taking a look at the situation from a different angle, if the poor performers who were only able to perform 10 tasks out of 100 can now perform 20 or 30 tasks, their productivity has basically doubled or tripled.

**Nakagami:** Ordinary companies tend to just encourage such poor performers by saying: “Don't give up” or “Hang in there” and unless they show any improvement, they are likely to be demoted or eventually forced to leave the company.

But Otsuka Corporation makes efforts to increase the performance of poor performers with a belief that, if these efforts pay off, the company will be stronger as an organization.

**Otsuka:** The approach taken to deal with poor performers depends on each individual.

If we find a case where the person is too dependent on SPR whereby it is hindering the proactiveness to look for business opportunities, we sometimes prohibit them from using SPR and have them go out to collect business cards just as we often have new grads do as part of their training.

We sometimes even reward them with gift certificates if they achieve their new personal best. Those who have rarely been recognized by others for their achievements are just happy with meeting these small milestones. We have a two-year revitalization program for those with poor performance records. Some are revitalized through the program while some unfortunately are not, sensing their limitations. In any case, we give them two years as



a chance to change themselves from poor performers to average performers.

**Nakagami:** That's an impressive story. If it is a sales-oriented company, people who do not deliver results tend to find it hard to stay within the company. It is not an easy task for a company to raise the level of the organization as a whole. It is also interesting to let poor performers re-learn the basics of being a sales professional by prohibiting them from using the IT tools that you have spent so much resources to develop.

**Otsuka:** It is better to consider "30 out of 100" as good improvement rather than to consider "still insufficient". If you think this way, your poor performers suddenly turn into gold mines.

**Nakagami:** Based on what you have shared with us so far, I now realize that the "work style reform" concept is not well-elaborated.

Obviously, we would all be happy if we can reform our work style, but how? Not much discussion has been made so far about realistic solutions, steps or priorities to achieve the "work style reform".

**Otsuka:** Superficial "work style reform" will not help increase productivity. If you simply let employees go home early, you will not be able to maintain the same level of output required to sustain the company, or if you introduce shorter working hours or remote working without a foundation to maintain and improve productivity, "work style reform" will get nowhere. Otsuka Corporation has promoted the reform step by step while maintaining productivity by implementing new objectives such as the Grand Strategy Project, SPR and the Support Team.

"Work style reform" is an agenda that we should address even without the support of IT. However, it is also true that IT is an excellent tool, or a weapon available for management to increase labor productivity or to implement BPR. IT should be all the more important because our own business is about IT. We should not be a shoemaker who makes his wife go barefoot (laughter).

**Nakagami:** President Otsuka's "work style reform" does not only involve "utilizing IT". You have accomplished the reform because you have successfully harmonized a number of factors such as BPR, reform on HR initiatives and corporate culture, and employee education.

**Otsuka:** There's nothing special about each one (laughter).

**Nakagami:** I think accomplishing all the seemingly obvious things as one package is the difficult part.

## **| What is the difference between a company that can implement "work style reform" and ones that cannot?**

**Nakagami:** We have so far learned about Otsuka Corporation's success on implementing "work style reform" by simultaneously addressing multiple key factors. However, there are companies who can do this and those who cannot. I would like to spend the rest of the interview trying to uncover the difference between them.

First of all, President Otsuka's management style is characterized by an emphasis on scientific aspects of management, or in other words, on data and rationality.

**Otsuka:** We have a basic reporting cycle in our firm. Managers receive reports with the budget progress and the estimate for the current month one week before month end. Then, they receive a flash report at the beginning of the following month. On around the tenth of each month, there is a monthly manager meeting to discuss the final performance numbers of the prior month.

I always prepare a five-page document ahead of each meeting and spend about 1.5 hours discussing my opinions and thoughts. I spend four days each month on preparing the material because I want to scrutinize the numbers and understand all the details of the current situation and thereby identify where the issues lie. I have made it a practice for years to extract data and analyze them by myself. I believe this sort of exercise enables me to see a holistic view of how the company is doing.



**Nakagami:** In the last issue of Misaki Newsletter, Professor Mishina talked about the same, saying: “Every job has a routine. An executive’s routine is taking a scientific approach to running a business by analyzing data and thinking through rationally”. He also added: “Meeting with business partners and seeing the ground is of course important, but as the executives’ job is to make judgement calls, it is essential to think about the company’s situation rationally by analyzing data”. That is what he called as the “executive’s routine”.

What you do during those four days each month is exactly that.

**Otsuka:** You’re right. The executive’s routine is really important. If you examine the variance between the estimate and the actual results and understand the indicators that represent financial performance and business activities, you could see, for example, which part of the market segments the competitors are trying to out beat us or find areas of concerns within certain departments due to lack of leadership.

The movement of indicators coupled with my own experiences will shed light on what is going on within the company. For example, if a team under good leadership is unable to deliver good results in terms of a certain indicator, they usually work hard to deliver good results in other indicators. However, a team under a poor leadership cannot deliver results in any field.

**Nakagami:** Maybe having a solid executive’s routine, as I can see that you follow, allows you to develop such hypotheses about ideal business operation or personnel evaluation system? Am I right?

**Otsuka:** You may be right. In fact, our company’s current effort in transitioning from a centralized business structure back to a community-based structure emerged from this routine. We grew our business focusing on local community. Then we had consolidated redundant processes that had been carried out separately by each sales office into the head office through the Grand Strategy Project. Some people say that we are moving in a loop because what we are trying to do now is something that reverses our past efforts. But the point is that we have already evolved to the next stage so it does not matter to me even if at a glance the moves seem to be making a loop.

**Nakagami:** I believe that another characteristic of President Otsuka’s management is “focus”.

For example, you have commented about M&A by saying: “How can you manage another company when you cannot properly manage your own?” I also see that you have never overstretched to expand overseas. Intrinsicly, a small and medium-sized business sector is considered vulnerable to macroeconomic impacts. Yet, you stick to where you are without worrying too much about that.

**Otsuka:** Our management policy has always remained the same. Our management team and employees are never worried because we make no material change to the company’s business strategy. There is no point in expanding our business overseas. It is better to focus our energy on our existing businesses than to divest them on overseas expansion. Starting a new business does not necessarily promise a brighter future. We can rarely find ourselves entering the market with a revolutionary new product. In almost all cases, we enter the market as a late comer, and spend money and time to make profits that barely justify our decision.

**Nakagami:** What you just referred to is the concept of “unchanging management”. Corporate executives often times tries to expand into new business territory, but you do not waste your energy in that.

**Otsuka:** To me, it is much more exciting to dig deeper than to expand wider.

**Nakagami:** I have a feeling that we now can see the true essence behind your “work style reform”. There is an underlying philosophy that once you decide on a battle ground, you stick to it and penetrate as deep as you can. Because of this, you are able to focus on the routine and analyze the data deeply, which allows you to come up with ideas on what the ideal company should look like.

Continuing to come up with creative ideas is not an easy task, but concentrating the energy on one area is perhaps giving you the strength to carry through the reform.

**Otsuka:** I really do not see our company doing anything special.

**Nakagami:** That's what you always say (laughter). You have once again made me realize how difficult it is to carry out normal business without establishing a robust "management style" and "management philosophy". Thank you so much for your time today.

September 2017  
At Iidabashi

\* No part of the reference to the company featured in this newsletter is intended to suggest our past investment performance or current investment policy.

### Interviewee Profile



President and Chief Executive Officer,  
Otsuka Corporation

**Yuji Otsuka**

1954 Born in Tokyo as the son of Mr. Minoru Otsuka, founder of Otsuka Corporation  
1976 Graduated from Rikkyo University  
1981 Joined Otsuka Corporation, after working for The Bank of Yokohama and Ricoh Company, Ltd.  
1990 Joined BIRDS Systems Research Institute, Inc.  
1992 Returned to Otsuka Corporation, in which he supervised the "Grand Strategy" Project as Director and Head of the Corporate Planning Office  
1993 Managing Director  
1994 Senior Managing Director  
1995 Executive Vice President  
2001 President and Chief Executive Officer (current position)

### Misaki's Voice



Engagement Officer  
**Akihiro Nakao**

As an Engagement Officer, my full resource is dedicated to engaging with companies to discuss about their business and how we can be of support to enhance value. I believe that the answer lies in the details. By meticulously gathering information on-the-ground in Japan and overseas and structuring these details into simple frameworks, I hope to offer solutions to complex problems faced by management.

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## Editor's Note

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It sounds right, but it's not that convincing... I suspect that I am not the only one who feels this way about "work style reform", which has been making headlines each and every day. I sense that this feeling of incongruity has come from a one-sided argument about the reform.

When it comes to "work style reform", people tend to raise issues surrounding improvements on working conditions, reduction in working hours, and procurement of labor through diversification of human resources. Certainly, amid the constantly decreasing birthrate and aging population, we can understand the need of increasing the working population ratio by developing a better working environment.

However, what about the output of all this? If the total value generated by a company remains unchanged, it is just a re-allocation of resources. Merely satisfying the employees does not lead to an increase in "earning power" nor will it lead to improvement in competitiveness required for the economic growth of this country.

This is the reason why President Otsuka has disapproved the superficial "work style reform". Just like how Otsuka Corporation has tackled this agenda, what we need is to maximize output with the resources available.

Maximizing output from a limited resource – This is the very nature of management itself. It is less than a coincidence that a range of management elements such as "business process", "IT", "corporate culture", as well as "Education" were referred to in this interview. It is impossible to push through "work style reform" without "excellence in management". It sounds so obvious, yet so new.

Japan's labor productivity is reported to be ranked at the 20th out of 35 OECD member nations, which represents the lowest among the developed nations. Despite the fact, I doubt that quality of Japan's work force is that poor. Rather, I dare say it is at the fault of the management teams that have failed to generate value by under-utilizing human resources of high caliber. We should also blame it partly on the capital market that has overlooked such situation for so long.

However, we do not have to be overly pessimistic. Japan Inc. may have a large number of "poor performers" when we look at on a global level, but I would say the other side of the coin is that they are "gold mines". What will become of Japan if management of those companies improves and its productivity doubles or even triples? Supporting such management evolution is exactly what Misaki Capital has sought for.

Admittedly, Japan is facing an era of labor shortage, and improving productivity is inevitable whether "work style reform" is widely implemented or not. However, we believe when met with adversity, management teams will transform, as Otsuka Corporation has proved by evolving into one of the leading quality companies in Japan.



Yasunori Katsuno  
Investment Officer



\* Cover photo: Cape Komo

Located on the Funakoshi Peninsula, Ehime Prefecture, sticking out to the Bungo Channel. Famous for its spectacular scenery with cliffs and beautiful sunsets.

Published  
by



Misaki Capital Inc.  
Sakurai Bldg. 3F, 5-11-1 Minami Aoyama  
Minato-ku, Tokyo 107-0062 Japan  
Tel +813-6427-7431  
info@misaki-capital.com  
[http //www.misaki-capital.com/en](http://www.misaki-capital.com/en)