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Prophetic Manifestation

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English translation of the book, “*Yocho*” (prophetic manifestation)
authored by Isao Okawa, published in Japan in 1996

Prophetic Manifestations

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PREFACE:

People say that the emergence of any new industry is always preceded by some “prophetic manifestation.” I believe that God gives the “momentum of the times” as an aide for those who grasp these “prophetic manifestations” and who, at the risk of their own lives, seize upon that moment to create a new business. I believe as well that God gives these same individuals a social responsibility, a “mission,” to contribute to the world at large. These few sentences provide an accurate summary of the story of my life.

People used to say about me that “Isao Okawa is just a grown up kid.” But now people say, “it’s happened just as Mr. Okawa predicted, the day of hardware has ended and day of software has come. And what’s more, just as he described, information now falls from the sky.” It is fortunate for me that the times have proven me a prophet rather than a foolish braggart.

Just as I was turning forty years of age, I had a dramatic encounter with a computer. Following that experience, I began to recognize the “prophetic manifestations” for the information industry, and I founded a corporation to provide computer-related services. When I started the company, I was forty-two years old and had a staff of only ten.

The “prophetic manifestation” I had sensed was unquestionably accurate. The information industry has changed focus from hardware to software, has begun to merge with the communications industry, and engaged the vast field of broadcast media. The industry itself has reached a critical mass.

Now that I have saluted my seventieth birthday, I can affirm that my perception of those prophetic manifestations is even stronger now than before. These information and communications industries, which in Japan today are referred to as the information technology/information systems industry, have provided the catalyst for economic recovery in the United States. In Japan, this industry has grown to the point that it accounts for some ten percent of the GNP, an accomplishment that can be claimed by no other industry in recent times - not the automobile industry nor the agricultural sector of the economy. The only other industry to achieve this position within the economy as a whole was the munitions industry during World War II. It is inevitable that the information technology/information systems industry will be the dominant industry for the coming generation. I have a clear intuition that the businesses that the CSK Group

companies have been working to develop will constitute the most promising industry of these times.

In spite of all that, I am worried. I am worried by the debilitated state of Japan, the Japanese economy and Japanese corporations.

I wish I could see some form of courage show itself from these quarters. Now that the era of the large corporation has passed, I look for leaders to found new enterprises and seek out new business opportunities. I hope for Japan with people like Bill Gates, ten of them at a minimum.

In the past, CSK and I have established venture capital funds and supported many entrepreneurs. Since assuming the position of Chairman of the New Business Conference this May, such initiatives have become my mission even more than before. Particularly at this point in time, as the information society takes shape and the resulting changes have such dramatic effect, the opportunities that present themselves are titanic. With one personal computer, and the vision and courage that are the products of your own mind, it is possible to found a new venture.

I have told my employees at CSK that I would be delighted to support them in their efforts to leave the company and establish themselves as entrepreneurs, or, alternatively, to remain with the company establishing new ventures as intrapreneurs. For new employees, I advise them to approach their decision to join the corporation as a step towards becoming an owner manager, and not to view themselves as an ordinary salaried employee who simply works here.

This year, we created a slogan - "originate new isms." We succeeded in advancing our businesses in the United States with our new entrepreneurial spirit, endeavoring to embrace the "American dream" and make every effort to be responsive to this new "era of the individual."

Growth often follows when someone takes a risk and declares to the world a grand, proud vision. I would like to declare my objectives here in public and burn all my bridges. The 21st century is the information and communications era and it is certain to be known as the information and communications century. It is also the birth of the Asian era. The CSK Group and I hope to expand throughout Asia and the rest of the world, from our base in Japan. When the returns are final, I am excited by the expectation of contributing to world peace by creating a young global network such as that exemplified by the GII Junior Summit.

By all means, I hope you will develop a sense of the “prophetic manifestation” for the information century throughout this book.

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POSTSCRIPT

GREETINGS

I am certain that the 21st century will be the information century. The revolutions in information and communications systems themselves will transform our industry, our society, social structures, daily life, culture and even our concepts of space and time. It is a time of enormous changes. Thus, enormous opportunities will visit us corresponding to the rapid developments in the information and communications industry - the so-called IT/IS industry.

I have decided to publish this, my first book, hoping to encourage all entrepreneurs to go forward at this time - a time during which we are witnessing before our eyes the emergence of a revolutionary information society. I feel a presentiment stronger than my original sense of prophetic manifestation regarding the emergence of this information society.

I would be honored if you could give this book your thoughtful consideration and correspond with me providing your advice and suggestions.

Isao Okawa

PROPHETIC MANIFESTATION

CHAPTER I

A “BIG CHANGE” MEANS A “BIG CHANCE”



GII Junior Summit

1.1 The Information Society Will Bring Radical Transformation

The revolutions in the information industry and society continue to advance. Now across the earth, the “big change” is occurring.

This change is the drastic transformation from an industrial society to an information society. No one disputes the radical nature of the advance of the information revolution. It may seem at times that we are viewing at the surface a serene flow, however we must sense the powerful motion of the information wave below.

There are phrases that have come into the standard vocabulary, including the information economy, the information society, the information revolution, information systems, the internet, multi-media, satellite broadcasts, satellite communications and so on. All of us who live at this time hear these words every single day, see these words in articles or hear them in passing from the TV screen. Even children use these words frequently in their daily conversation.

In 1968, I perceived a “prophetic manifestation” of the explosive growth in the industry of information technology and IT services, and at the age of forty-two, I founded a company. Since then, for twenty-eight years I have been working as its president¹. CSK Corp., the CSK Group companies and the information industry grew even larger than I had anticipated. I believe that this growth will continue on an immense scale.

However I am not even close to being satisfied. My soul is jumping with excitement because I believe that this “big change” is my greatest “big chance.” The reason why I am trying to promote my business in the United States and Asia, and to expand my investments in new ventures, even though I have reached seventy years of age, is that I sense the prophetic manifestation that the actualization of the information society will bring world peace.

My motto is the following:

It has been said that the emergence of any new industry is always preceded by some “prophetic manifestation.” I believe that God gives the “momentum of the times” as an aide for those who grasp these “prophetic manifestations” and who, at the risk of their own lives, seize upon that moment to create a new business. I believe as well that God gives these same individuals a special social responsibility, a “mission,” to

¹ Became the sole chairman as of June 1996, as he appointed Mr. Yoshiji Fukushima for the new president.

contribute to the world at large. These few sentences provide an accurate summary of the story of my life.

I am completely devoted to the establishment of business at the risk of my life believing as I do in the unlimited potential of the computer. I have secured enough assets for CSK to make a good use of the big chance. I also have a mission to use my venturesome spirit. After I put out my best efforts, I will leave the rest to God. I would be delighted, as would the CSK Group, to return a benefit to society.

The current information revolution has, in the main, two faces. One is the new industrial revolution that is based on the revolution of the information “industry.” The other is the revolutionary change represented by the development of an information “society” meaning the transformation of our lives and our social environment by the information revolution. I can say that the essence of the current transformation is that these two forces are at work at the same time.

In 1989, the Berlin Wall collapsed and the Union of Soviet Socialist Republics abandoned communism. A story had been told that at about that time, Lech Walesa, then President of Poland, was asked the reason for this dramatic movement towards democracy. He pointed to a nearby TV and said, “All because of this.” I do not know if this story is apocryphal, but it sounds true enough, and symbolizes in its way the information revolution.

If we review the history of commerce and industry, it is clear that there are always opportunities for new establishments to form during times of great upheaval. The truth of this assertion is obvious given an examination of recent history -- for example, the Civil War in the United States, the Restoration of Meiji in Japan and the activities immediately following World War II.

Now, what then is today’s big change or big chance? My understanding is that, for one, the revolution in the information “industry” will give birth to new developing industries that have IT/IS at their core. The term IT/IS refers to information technology and information systems. This term represents the two directions that constitute the aims of the information industry revolution.

The phrase IT/IS encompasses the Japanese meaning of hardware, software, communications and broadcast media. This phrase inspires new forms of conceptualization and new approaches to execution. It has long been the case in the United States that the computer services industry is in effect the IT/IS industry with the internet and multi media as extensions.

In the core businesses of those providers who mediate these networks, competition is based not on the production of software or hardware, but rather on the development of information technology and services. Creating the contents of a multi-media product requires a completely different set of talents than what was required by initiatives in the past - including, for example, a design sense, artistic sensitivity, or skills in story composition. The companies that have strong competencies in information technology are growing rapidly as this new industry develops.

At the same time, other existing, mature industries will change dramatically. It might be more accurate to say that they will be forced to change. If a network or a multi-media technology advances, work procedures and business methods will change drastically as a result. The convenience stores that make use of point-of-sale (POS) on-line systems have become a powerful resource for manufacturers in their merchandise development and decision making, a change typical of the sort that IT/IS has made in many industries.

In short, we can predict the new information “industry” revolution that has IT/IS at its core will lead the next phase of economic growth.

On the other hand, the revolutionary development of the information “society” will make the world smaller and bring the world together. It will transform the world with the free flow of money, commodities and people. Further, this development will be characterized as the transformation of a culture of letters to a culture of rich visual media and the passage from the era of the masses to era of the individual. Creativity, aesthetics, and a perceptual sensitivity fully attuned to global standards could prove consequential.

Various forms of information including visual media are now digitized and made interactive (reactions from both directions) thus removing the borders between countries, industrial sectors, or academic fields. This “seamless ism” will continue to advance. Of course as the basis for this development, we need to achieve an increased level of the global consciousness of open information.

People’s work patterns will be broadened and transformed. Society will accept the emergence of virtual companies and offices at home, and as a result, people’s lifestyles will be changed dramatically.

Beyond these matters, changes both visible and invisible will take place, some that we cannot even now imagine. One thing is very clear; we are experiencing a period of

industrial and sociological transition on a global scale. In other words, every industry, beginning first with the IT/IS industry, will be remade.

The IT/IS industry will lead the Japanese economy.

I would like to emphasize again. This big change represents business's greatest opportunities. For the CSK Group that participates in its small way in the Japanese IT/IS industry, it is a big change and a big chance. And this is true as well for entrepreneurs who seek to participate in IT/IS industry.

This new society and new industry require the emergence of vital and active venture corporations and creative entrepreneurs unencumbered by the past and capable of responding with vision and imagination. Because in the networked society and multi-media society, new ideas or new business forms will be always required to keep pace with society's movements.

These same tendencies are very clear in recent movements within the American IT/IS industry. A few years ago in the world of computers, distributed processing systems using high performance small computers, in other words client/server systems, started to come into mainstream use through technical innovations such as downsizing by replacing mainframe host machines with small computers as well as open systems, which overcome the obstacles of differing hardware and operating systems to integrate elements. This clearly signifies the onset of both a network society which links many elements and forms a new order and an "information society" for which information technology and services are the keys to success.

Even IBM, a company whose name was once synonymous with the electronics industry, has found itself on shaky ground today as the result of a reluctance to change and a desire to hold onto established markets and assets. Now, Microsoft with its Windows operating system, Novell with its LAN (Local Area Network), Cisco Systems with its WAN (Wide Area Network) technologies, Netscape Communications which has brought the Internet to many people across the world, these and others are taking the place of the former leading corporations. All of these are new business ventures led by entrepreneurs like Bill Gates (Chairman of Microsoft) who have been moving forward the powerful development and evolution of the American information industry.

By comparison, today's Japan appears weak. What can we do about it? There are varying opinions, but I for one am convinced that what is most necessary is the creation of systems and a culture that rewards dreams and visions, like that in United States where entrepreneurs are appearing continuously.

According to recent statistics, in the United States, approximately 775,000 new corporations are born annually. In Japan, the number of new corporations appearing annually is 45,000, only 1/17 of the number in the United States. This is much too small a number, considering that the Japanese GDP (Gross Domestic Product) is roughly one half of the United States.

New ventures are contributing in large scale to the recovery of the American economy. For example, with regards to employment, almost 2/3 of new employment is the result of small enterprises, primarily new ventures during a time when large corporations are decreasing new employment.

This is particularly the case for new information business ventures which often seem to show remarkable growth. Most of the corporations that are at the lead of not only the American information industry but also of the world information industry by creating paradigm breaking software or systems are new corporations with fewer than five hundred employees. As reported in the newspapers and other sources, conventional large corporations laid off approximately 4,000,000 employees, while at the same time the information industry, driven primarily by these new ventures, have created an growth in employment reaching an astounding 14,000,000. NY's Dow Jones Industrial Averages have shown dramatic gains from 1500 in 1986 to 6400 recently². It is not an overstatement to credit the entrepreneurial spirit of the information-related fields with the revitalization of a badly damaged American economy.

For a time, there were those who spoke such phrases "Japan's number one" or "there is nothing to learn from the United States." Upon reflection now, how conceited an attitude that has proven to be. Those young American entrepreneurs have exposed us to our own arrogance.

I believe Japan should emulate the United States. It is certain that the information industry will lead the Japanese economy and that industry's new entrepreneurs will be the leading forces in the movement.

The information industry will develop at an increasing rate.

In 1946, ENIAC, the world's first electronic calculator was created. With ENIAC was born the information industry, beginning as the computer industry. From those times to today, the information industry has experienced fifty years of history. Those years

² Dow Jones Industrial Average has exceeded 9000 mark in April 1997.

have witnessed the rise and fall of many individual companies, but the growth and power of information industry itself has never faltered, and continues today to gain strength.

The computer's commercial use began in 1950. I think this is a mysterious industry. In the beginning, hardware largely predominated. Little by little, software gained recognition. As software gained an equitable position relative to hardware, communications systems were added to the industry and expansion continued. In 1990, we celebrated a forty-year anniversary. The Nikkei newspaper had asserted a theory that a corporation's life span consisted of some thirty years. Thirty years is one standard for the life span of merchandise or of an industry as well, as most have reached maturity in thirty years. However the computer industry has never shown any sign of depreciation after thirty, or even forty years. In the 1990's, broadcast media and satellite communications merged with the industry. Business can be conducted via satellite communications, which is in turn combined with existing broadcast systems, and new systems still under development. This industry is invulnerable and it is without question that the industry will grow immensely in the 21st century. This industry is immortal.

Along with advancements in network computing, the scope of software has also changed. There are two kinds of software, one exists as a technological service on its own and can be sold, while the other is included within the hardware as a component part. There exists a plausible theory that hardware is in fact the ossified version of standardized software.

The scale of information industry's development is unprecedented. For example, information industry's business is approximately 700 billion per year in the United States alone, constituting more than 10% of GDP.

This is an astonishing scale. This number shows that the information industry easily overcame the automobile industry and the agricultural industry that were both at one time the hallmarks of American industry. From the historical perspective, no industry other than the munitions industry during World War Two has exceeded ten percent of GDP. These figures can help describe the immense scale of the information industry.

It is certain that the information industry is the largest industry to emerge since the Industrial Revolution.

According to the Ministry of International Trade and Industry's "Vision of the Information Industry in the Year 2000," the information industry's market scale in

Japan at the time of the beginning of the 21st century is estimated at 144 trillion yen and it will constitute 20% of GDP. I am not aware of the studies that support this numerical forecast, but some in the industry suggest that “it will be bigger than that.”

Either way, it is certain that this industry will continue to grow dramatically in the future and will lead the Japanese, Asian and world economies.

1.2 Globalization Will Extend Rapidly

GII makes the world smaller.

The “big change” that is occurring right now is the most important factor at work in Japanese industry and for CSK Group since its establishment. I consider this change to be “a chance in a million.” During times of transformation, societies always formulate new functions and develop new needs. Thus, strategies and tactics to meet those needs and support those functions will point the way to this “big chance” for success.

The reason why I am committed in many various ways to the GII (Global Information Infrastructure) that has garnered the world’s attention is to use this chance to lead us to success.

The GII was proposed by Vice President Al Gore at the World Electronic Communication Development Conference of the International Telecommunications Union (ITU) in March of 1994. That is the spectacular plan to create a global information infrastructure, the prerequisite of the networked society. The plan is based upon the belief that there is a need to guarantee equal access to information to everyone in the world.

The father of Vice President Gore is a former senator who promoted the interstate highway system that traverses North America from north to south and west to east. His son aspires to the actualization of the Information Super Highway. It sounds like a kind of American dream. Al Gore also promotes equality of access to the information supported by the GII.

One of the reasons I was interested in this concept is that I believe the true networked society or advanced information society will not exist until a network infrastructure is established in a way that makes the network accessible to everyone in the world in “equal form.” No matter how advanced the American or Japanese information super

high way networks are, if other countries maintain antiquated network systems, the result will be a large impasse in the flow of the information.

And one further reason that I am an advocate of this plan is simply that I find myself in complete agreement with its principals and concepts.

These principals can be described quite simply, as in the following. Promote competition by revitalizing private investment. Provide open access and universal service to mitigate against the inequities in the advantages of the information “haves” as opposed to the “have-nots.” And create a framework that will adapt freely to a constantly changing market and the constantly changing technology of information communication.

This is truly a grand plan. But this is a plan based upon the policy that the primary force behind its creation and operation will be provided by the private sector, with government maintaining a supporting role. American leaders must understand that bureaucracy- initiated approaches, so characteristic of Japan since the Meiji era, are not appropriate for grand plans that have as a prerequisite free competition.

In any event, I believe that the GII plan - in both concept and principal - is so momentous. We can envision the value of such an initiative already simply by imagining a greater and more useful version of the current internet. The GII literally attempts to “make the globe smaller and unite the world as one.”

After the 1994 Conference, many international partnership projects in GII have been agreed upon. In my own small way, I have been suggesting some ideas as well. The “GII Junior Summit ‘95” that took place in Tokyo in the fall of 1995 was my idea and it was an extension of this project.

Borderless is the common sense in the future business.

In this information era, the world has become a smaller place, with distances of time and space diminishing. There is even now the possibility of a standardized European currency, a further step in the world uniting as a “single” place. GII is the blueprint for a global information network that aims, in fact, to establish a world standard for software, the contents of information.

The fact that Microsoft Windows of Microsoft became the world standard for personal computer operating systems gave me a very good lesson. More than ever before, these standardization strategies are important keys to the growth of information related

corporations. For the CSK Group - with the primary energy of our business being the software and information contents - the direction of our business became clear.

At a constantly increasing rate, the information communication networks will extend globally. In short, markets are becoming borderless and the world is emerging as a single market. For example, according to the Internet Society, the number of internet users in the world is estimated to be on the scale of billions by the year of 2000. Even if we consider that estimate to be exaggerated by twice, the current status of the internet illustrates its capacity for bringing the world together.

Of course, the worldwide network is the combination of each country, each area network. Thus various services can be reserved for an area's local network. However, from the point of view of the entire market, the existence of a global network and set of global standards is very appealing.

I believe that developing businesses that are adapted to this global market is a requirement for CSK's development and its future as a corporation of universal scale.

I can hear some say "even so, Mr. Okawa, it would not be easy to develop software or information contents that can compete in the world market." To this I respond that as long as we stick to the basics, some possibilities should present themselves.

One member of the CSK Group, "SEGA Enterprises Ltd.," is a company that became global in scope with their computer games. Now SEGA is well known in Japan, and even better known in foreign countries.

The reason that SEGA Enterprises developed as a worldwide corporation is that they have been operating a business that anyone and anywhere in the world can easily understand and appreciate. This in itself is one proof that if we are to succeed in responding to a global marketplace, we need to base our business on things that can be appreciated worldwide.

There are several possible fields that suggest themselves in this worldwide context. For instance, numbers. Everywhere in the world, one plus one equals two. The reason that Japanese electronic calculator manufacturers succeeded in the world market is because their business was based on a world standard - numbers.

Another that comes to mind is music. The sheets of music that show scale and melody are common across the world, and the reason why Japanese electronic musical instruments are maintaining a strong competitive position in the world market is that

they are based on world standards. For the same reason, Japanese Karaoke is popular overseas.

In addition, things that embody beauty, excitement and fun are appreciated the same across the globe. Those include movies, perhaps something like Pachinko, or systems that use virtual reality, and so on - systems distinct from SEGA's games.

The networked society is a society with fewer and fewer borders, beginning with the borders between countries. In this society, the infrastructure that connects the network is important, but most important thing is software and its contents.

To make that software and its contents useful and compatible in the global market, that software must be based on something that people in the world would enjoy equally in different parts of the world -something that moves people or entertains them using numbers, images, beauty or fun.

Paying attention to Silicon Valley in the United States.

I drafted a new management plan for the CSK Group to challenge aggressively the big change and develop its maximum potential as the big chance. That implies promoting business in the Silicon Valley.

Specifically, the plan calls for the establishment of an American corporation, SegaSoft Networks Inc., as a joint-venture with SEGA in the Silicon Valley, and call for the development of software for personal computers, games, on-line shopping, educational media and so on.

We also established "Sega GameWorks" in cooperation with Mr. Steven Spielberg. We are planning to build amusement facilities in various places in the United States.

The reason why I have decided to extend our business to the United States is the following.

CSK has been holding "Japan-America VIP Conference" in the United States to seek the future vision of the multi-media market. From the United States, Mr. Paul Allen, the co-founder of Microsoft Corporation, Mr. Robert Wasler, a former chairman of CBS, Mr. Robert R. Bishop, President of Silicon Graphics, Mr. Mike Holmer, Vice President of Netscape Communications, Mr. Nicholas Negroponte, Executive Director of the Media Lab of the Massachusetts Institute of Technology, and others participated in the conference. From Japan, President & CEO of Soft Bank Corp., Mr. Masayoshi Son, myself and so on.

There were various other participants including representatives from different industries such as personal computer manufacturing, satellite broadcasting, semiconductors, game software contents and even the Federal Reserve Bank. The conference grew much larger than I had expected.

After several discussions I discovered the extraordinary speed of the product life cycle in the American information industry. Within one year, many new items come out one after another. This speed is keep accelerating and recently, the cycle is about six months.

In addition, the quantity of new products is immense and there are many reports from the American side on the latest movements in many fields. Unfortunately from the Japanese side, there is almost nothing to report. I felt keenly the difference between Japan and the United States.

And so I decided to make a base in the United States and put myself in the middle of the movement so I do not have to go to the United States to see the new movement there in person. I would like to make many acquaintances and connections, in that way experiencing and gaining new perspectives on the United States.

CSK already had a branch in the United States and from that base we have been collecting information. However I fully realize that is not enough, I must pose a challenge in the United States by establishing US entities to work in parallel with our Japanese offices and by spending my time in the United States significantly.

I believe that within the next ten years, the direction will be set for many fundamental changes, including the future relationship between television and the personal computer, the role of multi-media, the interaction between satellite broadcasting and cordless systems, the maturation of the Internet, the advancement of high technology management information systems such as that represented by CALS (Continuous Acquisition and Life-Cycle Support) – an industry strategy to achieve highly automated and integrated acquisition and logistics support processes based on digital data and documents. Obviously, the contention within the information industry will be determined by then.

From all my observations of these current movements, I must note that their leader is clearly the United States. I must continue to observe their future movements carefully. From now on, I would like to live in the Silicon Valley and I would like to watch the flow of change and its direction with my own eyes. Thus, I am even challenging myself to learn English conversation, at which I am not particularly fluent.

Although, this does not mean that I am giving up Japan. I believe having two headquarters functioning in Japan and in the United States is the most effective approach for accomplishing the globalization of the CSK Group, considering the prospect of collaborating with the world's top ranked corporations.

I would like to feel the flow of development in technology and marketing, and if I see a field or a company that might advance in the future, I would like to invest in them or cooperate with them. If it is better, I can even move those companies or fields to Japan. And I hope to prepare for the 21st century, a time during which I think Asia will prosper.

1.3 Now Is The Time For The Entrepreneur

Speed determines victory or defeat.

I believe that the coming information society will be the era of the entrepreneur. I also believe that the entrepreneur who is filled with will and creativity will stimulate the movement of these times in Japan as well. There are many reasons why I believe so, but I can begin with the rapid pace of change in the information industry.

Just observing the recent changes in the Japanese internet-related industry, the importance of speed is very clear, even if we do not consider the American situation.

To meet with the speed of change and win the competition in the market, the only thing that works is an owner's quick decision making and quick action. If you spend your time observing the action, as many have done in the past, you will be defeated in a split second. Especially in the field of software or contents, there is the matter of patents and copyright. The faster you move the better the results, the better your chances to win. As faster decision making and faster action is most important, in that sense, the environment favors smaller venture corporations in the conduct of business, as compared to larger corporations.

An American venture capitalist once told me that if someone wants to find a Japanese investor, they often take the matter to a smaller corporation rather than mega-sized corporation. The reason for this approach is that if they work with a large Japanese corporation, too much time is spent on procedure and the chances are strong that they will miss the good timing for the investment. This is one indication of the limitations of the old fashioned large corporation.

If we are to avoid remaining behind as change happens around us, we cannot rely on owners who assume the attitude of salaried men who are concerned “only for while I am in this position” or who choose to “just try to be safe.” Companies with rigid routines, such as taking a long time to review new ideas coming from younger employees, cannot be successful either. If you remain attached to successful experiences from your past and continue to conduct business in the same fashion, you will be defeated.

New ventures, which do not suffer the weight, of old success stories or old connections are flexible to embrace change and can, as a result, move more quickly than larger companies. What is needed now is the spirit of the venture, owners who challenge new circumstances quickly and bravely. What has happened in the United States demonstrates that very clearly. In short, most companies that have developed historic systems and software are young entrepreneurial venture companies that may be small but are filled with a frontier spirit. The power of the incentive will be the most significant determination of business results.

The significance of the wealth will change.

In the future advanced information society, the significance of wealth will change completely.

At the beginning of the industrialization, the sources of value were raw materials such as gold, iron ore, coal or agricultural products. In addition, the land that produced those materials was important. Along with the advancement of industrialization and the development of the machinery and manufacturing methods, the value of technology became important and became the source of the wealth or the means of production. Thus, large corporations - that can afford to invest large amounts of money for mass production - became predominant. At that time, to participate in a developing field required immense capital. Further, there were invisible barriers such as “brand names.” Most venture corporations had a difficult time.

However once industrialization matured, a new trend developed - generally called “the information economy” - made possible by the emergence of computers. Along with the advancement of the information economy, the value of certain intangibles - including information, time, timing, speed, space and so on - became increasingly important. In an advanced information society, the most critical assets are the value of the intelligence and wisdom that accompanies the use of information and time. In this

fashion, information networks have become the inevitable means of production in the information economy.

With the progress of information networks, the world becomes smaller and smaller. The value of currency, the prices of items and the methods of distribution change rapidly. The basis for communication between people also is dependent on technology - and the results of the computer operations associated with these forms of communication continually update databases that help identify people's reactions - joy, anger, sadness, fun - and summarize, analyze and apply this knowledge to new purposes. In the information economy, the significance of wealth is also shifting. "Wealth" comes to mean possession of advanced technology as symbolized by IT/IS industry and the capability to use it.

In recent times, the volume of information available to us is so vast that it is sometimes described as excessive. However information in itself has no meaning. It only becomes useful when it is acted upon and guided by a clear sense of purpose. It is said that most people can express only some ten- percent of their subconscious desires. We must find ways to summon the remaining ninety- percent of our hidden "tacit dimension."

I define this as the transformation from a form of capitalism where money and fortune was at the core to an "information capitalism" and to the "intellectual capitalism." The transformation of capital is from those things tangible - such as massive amounts of equipment or numerous employees - to those things intangible - a brilliant brain. In other words, time is moving from an era when establishing businesses required extensive funds to an era where all we need to establish a business is one brain.

You can establish a business with one personal computer.

Six or seven years ago, there was a movement towards client server computing and away from mainframe computers. Before that time, I had noted in our company's journal "Hiryu" as early as 1982 the movement towards personalizing of computers, or the personal identification of a computer as my computer. However in truth, I never expected the movement towards downsizing and personalizing to proceed at such a rapid pace.

I was anxious about that movement and so I walked around personal computer shops in Akihabara to observe the market directly. This proved insufficient for me, and as a

result I consulted Mr. Kazuhiko Nishi, President of ASCII Corp. and Mr. Masayoshi Son, President & CEO of SoftBank Corp. and asked for their opinion on the market's movements and their predictions regarding the future of these movements. As a result, I expected it to take a longer time for computers to be personalized but the movement towards downsizing was proceeding faster than I expected and I was convinced that the era of personal computer would come.

We at CSK must respond to this movement quickly. While I was groping in the dark pondering various ideas, I met Mr. Son, President of SoftBank once again. During this meeting, Mr. Son said he recommended "one computer for one employee" as if that were obvious. The idea moved me very much. I decided to make that happen immediately.

Around June in 1994, I delivered a computer to each of my employees' homes. It required one billion and five hundred million yen of my own money for 7,000 units of PCs, since if we had used the company's money for this, the revenue laws would have created many difficulties. Since that time in the following two years, the workstation and personal computer division of our business in CSK Corp. has expanded dramatically, even exceeding the general-purpose mainframe computer division. The speed of the movement towards personal computers is extremely rapid.

In the information society, we can conquer the world if someone comes up with the "best method to achieve certain purposes" and create the de facto standard for the usage of information. Or you can be a winner if you create related technology.

This may be a bit of an overstatement, but we can establish a business with one computer and one brain. We do not need abundant resources. What we need is a unique idea for software or its contents and the energy, enthusiasm and eagerness to make it happen. In that sense, the advanced information society is a heaven for enthusiastic people.

In other words, the information society or the networked society is a place where individuals can be entrepreneurs using their own wisdom. It is a time when with one personal computer, an idea and your own enthusiasm, you can establish a business and be successful.

I hope that each one of my employees will strive to become an entrepreneur, using their personal computer. The approach could be that of an intra-preneur - an entrepreneur within the company. In that event, I will support them in their efforts to establish a venture inside the company. What I want for my employees is to provide the

opportunity to meet new challenges without allowing their current work projects to stagnate. However, I would expect that this could be difficult to do using the company's computer, and some may hesitate. That is why I presented computers for each one of my employees to use in their homes with my best wishes.

Without the support for entrepreneurs, Japan will face a crisis.

There is a certain background in the United States for generating venture corporations one after another. Since the beginning of American history, the frontier spirit has never died and it remains today as spirited as ever. The pioneer culture continues even now - warmly welcoming those entrepreneurs as heroes who have achieved the American Dream in their businesses. Furthermore, the American educational system encourages individual creativity. In addition, the taxation system supports a successor financially. Venture capital firms- encouraging the promotion of new ventures - are very solid. Beyond this, there are many individual investors - so called "angels."

On the other hand, the current situation in Japan is dreadful, incomparable to the United States. Sometimes I am inclined even to create offense by declaring that the Japanese culture has taken the lead among the nations of the world in discouraging the creation of new ventures.

First, the educational system and educational methods differ greatly from those in the United States. Although there has been some change in recent times, it is still the case that the Japanese education system is almost monomaniacal in its emphasis on measuring knowledge using primarily paper tests. A child may fall behind if he or she spends time as a result of being moved emotionally, or questioning daily life or engaging in play. Every child is expected to excel in every subject, that is the hope. Properly speaking, we should encourage and inspire people who may not be good at history but may perform perfectly in mathematics, instead of creating educational environments that leave such students feeling only dismay. We need many, many different criteria to measure people. For those with special talents or even genius to prosper and use their gifts, we need the kind of society and culture where many different gauges are applied.

Furthermore, in Europe or the United States, throughout the educational system from elementary school through the University, students are taught to find expression for their unique qualities through discussion - encouraging them to have opinions that differ from others and to be assertive with those opinions. From when they are small, children are encouraged to think for themselves and to cultivate a habit of being

assertive. I believe European and American education systems are far superior in cultivating creativity to Japan where subjects are taught that tend to have only a single answer. I believe Japan would benefit from a dramatic educational revolution.

It is not that I think this educational revolution is the only source of the energy needed to create a society and culture, which will encourage venture businesses. I also believe that the Japanese social systems, conventions, even traditional values and national character need to be remade. In Japan, there are sayings such as “Envy will pursue merit as its shade,” “A tall tree catches much wind,” or “the pheasant would not be caught, but for its cries.” These sayings and many others hint of a strong jealousy towards successful people or people who become famous. There are many instances that I know of personally in which people start rumors regarding individuals who have succeeded in business or made a substantial fortune indicating that “he must have done something bad.”

There are many things that can help us come to some understanding of the reason for these characteristics. The original forms of Japanese society were agricultural. Japan has been an island, isolated in many ways from other countries for much of its history. And so on. In spite of all this, it is without question that we must change these national characteristics and habits. The flow of the information economy is moving ahead towards the establishment of global de facto standards, leaving behind those who refuse to go with the flow.

Running a company and making a profit implies paying a lot of taxes and creating many employment opportunities. In short, it means making a great contribution to society.

Recently in the United States, entrepreneurs have enjoyed a heroic stature, but I understand that has not always been true. Following the Vietnam War, the American economy was in a serious recession. In response, an aggressive propaganda campaign was launched in the media to encourage entrepreneurship as a cure for recession.

The campaign was based on the idea that “entrepreneurs are contributing to the country by paying taxes and creating employment.” The campaign worked. As a result, now more of the best students in the better schools set as their objective to become entrepreneurs.

In Japan, we need to create a similar atmosphere. That will be a prerequisite for creating a culture that will encourage new venture businesses to grow.

Also, another factor obstructing the growth of venture corporations is that so called “angels” find it difficult to prosper as a result of various taxation problems including high income taxes and high inheritance tax.

Recently in Japan, public administrations have realized the importance of developing venture businesses and are actively trying to raise venture capital under the leadership of the Ministry of International Trade and Industry. Also, stock options were introduced partially (in some fields), a second over-the-counter market has been newly established and conditions are improving for venture businesses. However I question how far these support systems can proceed, if led by a bureaucracy. We need a system to support venture businesses based on the principles of competition and self-reliance with a perspective provided by a private organization. Then both support systems can work together and create the best results.

In May of 1996, I decided to accept the position of the chairman of the non-profit organization, “New Business Conference” that supports and promotes new business ventures. Also we created a “venture capital” fund inside the CSK Group and actively support and nurse energetic venture corporations not only financially but also in many other ways, including management education, technological support, human resources support and so on. I am also continuing to invest personally. My individual support and the CSK Venture Capital fund combines to make one of the top five investment capital sources in Japan.

The most advanced support systems for the venture businesses are found in the Silicon Valley. They have the “know how” required for establishing businesses, as well as the “know how” required for supporting and growing businesses. This then is the other reason I have decided to maintain two headquarters, one in Japan and one in the United States. I want to study and penetrate the mystery of how American corporations manage to run their companies with a vision that includes “beauty, sensation, creativity, and fun,” while boosting incentives, and nursing budding entrepreneurs.

1.4 The Key Words Are “Beautiful, Sensational, Creative And Fun”

Prophetic manifestation of the arrival of the era of individual.

At least in Japan, the information industry market - both in the distribution of personal computers and the extension of networks - is formed like Mount Fuji.

At first, large corporations with large plants, capital and development investment funds embrace new products. These form the peak of mountain. Gradually, the leading corporations do the same, those coming at a ninth or eighth of the height of the mountain. Next, small and medium-sized businesses adopt the products - that covers from the seventh to the fifth level of the mountain's height - and then the vast skirt of the mountain is formed by the individual home market. Once spread to the individual or home level, the market is expansive and needs of those on the bottom change the movement of the whole market.

That is to say that individuals who form the vast skirt of the mountain begin to lead the market. This phenomenon is also surfacing in the internet market which is the harbinger of the networked society. The Internet is well suited for connecting the computer networks that consist of the wide variety of computers around the world. In the main, the development of the Internet makes communication and software production more economical. But what is driving application development most, and the contents and the assembling of home pages is obviously the expression of needs from individuals all over the world.

The first thing required once individuals start using personal computers or networks, is the service that supports their individual convenience. Obviously software to provide those services will be required.

However, no matter how the variety of the services is expanded, if the emphasis is only on utility, the application time (the time users spend on the machine) will be limited. We can see that in cases of the telephone or the fax. What people use for the most part is TV, computer games and so on - things that are fun to spend time with within the domain of play. Thus, the information economy expands its scope from business to play at the same time it expands its market from supporting corporations to supporting individuals. The development of multi-media businesses also matches this movement.

In these new eras mentioned previously, the things most appreciated and needed are ingenuity, creativity, originality, an aesthetic sense and a sense of fun. I refer to this as the call to be "beautiful, sensational, creative and fun." The more that individuals become the leading force in society, the more that the call to be "beautiful, sensational, creative and fun" as well as a system of incentives will be required.

There is no difference between men and women in these abilities. Rather, two-thirds of the new businesses born in United States each year are founded by women. There are many businesses that take advantage of a woman's special sense.

In the world of “beauty, sensation, creation and fun,” there is a craving for a woman’s unique and detailed sense of aesthetics based on their real life experiences. In Japan, we already have a toy company with women forming almost half of the total number of employees, virtual companies incorporated by women employees who met on the network, and so on. We have problems in the employment of women college graduates, but in reality, many dynamic, capable women are actively working in many fields.

In the coming multi-media networked society, the “individuals” that form the vast skirt of Fuji Mountain are going to be the leading players. In other words, in the coming era, IT services that are characterized as “beautiful, sensational, creative and fun” and services with particular care will be essential.

Moving from “for work” to “beauty, sensation, creativity and fun.”

It was about ten years ago, in the mid-eighties, when I realized that the catch phrases “beauty, sensation, creativity and fun” were going to be important in the future.

That was the time when the industry was just moving from the heavy and long to the light and short. From the start there was a need for computers but those needs shifted dramatically towards smaller products, and developed from the transistor to the IC, the LSI, the ultra-LSI, while prices declined and power had increased tens of thousands of times. This change was a volatile factor within the information industry as the industry continued its explosive growth.

Since then, the era of an advanced information society was expected to come. The “Mount Fuji” formula was the image of the form of future development that I adopted at that time.

The personal computer - in Japan at that time it was called “Mi-Com” - had not spread to individual homes at that point. Watching the movement from the peak of the mountain - the large corporations - as it spread to the fifth of the mountain - the small and middle- sized corporations - convinced me that the movement would spread to the individual level.

Down to the fifth of the mountain the market consisted mainly of the demand from businesses. But below that point on the vast bottom skirt, the market will consist primarily of demands related to the aims of play or of having fun. I expected that when personal computer use spread to the regular homes of individuals, it would not be

software suiting business purposes but software that was beautiful, sensational, creative and fun that would grasp people's hearts.

It was as an inspiration at first. But the more I gave it thought more this perception grew inside me until it composed a single image.

It was just at that time I was asked if I would be interested in buying SEGA - and the timing was good.

Bought SEGA by anticipating the advanced information economy.

The opportunity to buy SEGA came to me completely by accident.

At that time, a company called "Atari" that had previously enjoyed great achievements in the United States in the business of game computers had fallen into financial difficulties. In that context, Paramount came to the decision to sell "SEGA Enterprises," and to sell soon. The person who brought me the information was Mr. Hayao Nakayama, then President of SEGA Japan. His home and mine happen to be close by and we knew each other for long time, and so he brought the opportunity to me. This was in early 1984, before the Nintendo's Family Computer was known to the general market.

The first thing that came to my mind when I heard this opportunity about SEGA was that a game software corporation like SEGA would be indispensable for servicing the skirt of Mount Fuji - the individual market. I was not completely certain, but if my ideas regarding market patterns in the coming advanced information society were correct, this company will have a very fascinating future.

Soon, Mr. Nakayama and I went to the United States. After the negotiations on the purchase price, we agreed upon ten billion yen. In April 1984, I acquired SEGA. At that time, it was one of the largest investments on record, even then the famous Minebare purchase was estimated at a maximum of ten billion yen.

On the other hand, there were cases when I missed a good investment opportunity. That was about the same time the CSK's stock listed on Second Section of the Tokyo Stock Exchange - December 1982. Merrill Lynch Corporation asked us if we were interested in investing in Sun Microsystems in the Silicon Valley. I decided not to invest.

At that time, the offices of Sun Microsystems operated from some dirty rooms on the second floor of garage. The company name was hand written on the entrance door.

The technologist I took with me judged that they possessed brilliant technology, however I thought that the level of hardware technology could be handled by a Japanese computer manufacturer. I could not see that Sun Microsystems was a software development company, and never a hardware development company. It was my mistake in the vision of this technology, and it makes me disconsolate to recall it.

After that, Sun Microsystems became a leader in the field of distributed network operations, the leader in workstation development and grew to carry a part of a new generation of computer environments. Unfortunately, Japanese manufacturers have been only able to follow their technology.

Media culture will lead the market.

When I go to overseas on business, I am often moved by the beauty of a great mountain, or the clear and pure waters of a river. Sometimes I feel “I want to show this to my employees.” Instead of explaining with words, I simply want them to feel the same presence themselves. Especially when we are young moving experiences go deep into ourselves without conscious knowledge and accumulates as a subconscious. That effects the future.

There are various forms of information. Some information can be transmitted through tactile sensations and some through auditory sensations. When this information is combined with the information from visual sensations, it will evoke the most poignant impressions.

Virtual reality uses those characteristics. Using this technology, we can walk in foreign cities while staying in Japan or experience adventurous worlds like those in movies and feel a realistic presence that we were never able to experience though other media. Also now we can see the realistic pictures of events that we in fact are not able to see - for example - the way the cancer cells multiply or, using computer graphics, view the way that molecules of smoke disperse.

Once I predicted that “the primary force in the future information economy will be pictorial images rather than letters. The picture image technologies progress, and then will be combined with information technology and communication technology. At that point, the information industry and movie, publishing, home electronics, games and other related industries will be united.” In fact, the actual transformation is advancing at a more rapid pace than I expected.

This movement will not stop. The technologies for satellites and digital images will advance continually. It is inevitable that these digital images will be a leading force in various media. “Reality” is the important key factor in filling the needs for beauty, sensation, creativity, and fun.

1.5 Learning From The Sensitivities Of Children

The impressive “GII Junior Summit.”

I suggested, “in the future, we must create opportunities where we listen to children’s voices from all over the world, and create opportunities for them to interact together,” at the G7 Industrial Summit’s round table, where people from forty industrial companies from seven nations joined together in Brussels, Belgium in February of 1995.

We discussed the future possibilities and impact of the GII advocated by the United States. I thought then, it is good to discuss the future infrastructure but it may be important to listen to the voices of children aged 15 - 18 who will be the actual users of the GII in 2010 from all over the world.

What determines the direction of the software or contents in the advanced information society will be sensations such as beauty or fun. Perhaps children have the most keen sensations and greatest creativity. Without being trapped in old concepts or values, children can come up with ideas freely. They do not even consider nationalities or borders. In short, they still have sensations and ideas that we adults have already lost.

In these times, children are naturally computer literate and familiar with these systems through playing games and other activities. They are completely removed from any fear of computers that we adults have. They have many ideas for making images more fun. For example, they could use a school black board made up of a plasma display, and so on. I suggested that we listen to ideas from children from all over the world.

This suggestion was supported by many people and organizations across the globe, and as a result the “GII Junior Summit ‘95” was held in October 1995 in Tokyo. Some 450 papers were submitted for this Summit through the Internet. We chose 41 children from across the world (eight children from Japan) and invited them to the summit.

The Summit went on for four days from October 31st to November 3rd. Before the Summit started, many opinions were exchanged among children from the world on the on-line forum on the Internet.

They had heated discussions on ten themes such as “Why Do Wars Happen,” “How To Communicate To Make The World a Peaceful Place,” “What Education in Schools Should Be,” and so on. In the first three days, an amazingly set of 200 e-mails were received from children around the world. There were many moving stories and unpretentious opinions offered regarding social problems going on around them.

One twelve year old Israeli girl asked via e-mail “why is it that Jewish people and Arabs cannot get along? My town too became a field of war. I want to be a good friend to Arabian children. How can we understand each other?” Her wish moved the principal of the school and now the entire school is trying to open lines of communication with Arabs.

There were some unexpected questions too - “Who should fund third world countries?” Some said, “those who do not work, should not eat.” Some opposed “African countries that have a history as European colonies. The colonizing nations should support them.”

There were many problems and unpretentious questions collected that we adults tend to avoid. As one who participated in this summit, I believe it was a great success. Most of all, I was moved by the quality of the children’s sensibility.

Children’s hearts create the new world.

My favorite French thinker Jan Giton made the following statement in his book “A Letter For Young Children:”

“I came to this realization only after I grew up. Even as adults, we continue grow up through the experiences of the children around us. It is important that we allow children to ask many questions.”

Also the German philosopher Heidegger, a friend of Giton, once told him “If you would like to study philosophy or religion, let children question you. through the children, you can find the truth. The truth is covered by veils but children take them off.”

Children learn from adults and adult society, but at the same time, adults learn a great deal from children’s ideas as well. Giton also writes:

“We teach you the rules. In return, you teach us with your dreams and your innocence. We force on you the weight and you teach us about lightness.”

The Junior Summit gave us many hints regarding infrastructure in the networked society. They also gave us many suggestions on topics of global interest, namely peaceful human co-existence and living in harmony, as well as on the topic of global environmental preservation via understanding the earth as a global village. If the summit could make a contribution to the reduction of conflict and the pursuit of peace, I think that would be a magnificent achievement.

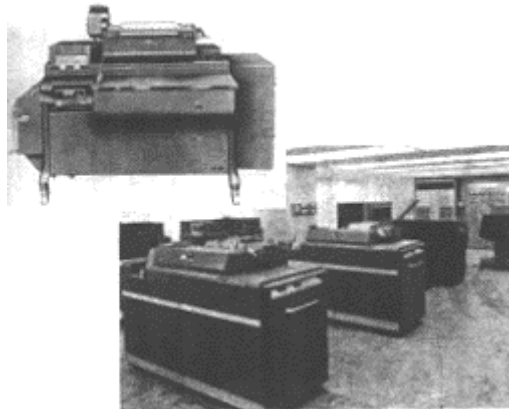
Just watching this summit confirmed for me the belief that since information technology and communications systems have an effect on people’s ways of thinking and the foundations of their way of life, the development of these technologies will have a profound impact on sociological patterns.

Thanks to these wonderful children, the other participants, and support from many organizations, companies and individuals, the “GII Junior Summit ‘95” was a great success.

A second summit is being prepared now with the help of MIT and others. Hopefully, this effort will continue to receive support.

CHAPTER II

AN ENCOUNTER WITH A COMPUTER AND THE PROPHETIC MANIFESTATION



IBM405(left) and 407

2.1 Awe And Fear In The Face Of The Computer

An encounter with a computer

When we feel “something special,” there is a chilling, spine-tingling experience that we may refer to as a “flash of intuition.” An IBM sales representative appeared before me when I was thirty-six years old and looking for a business opportunity with strong growth potential. He came to my older brother’s accounting firm to recommend a machine from IBM.

It was a machine such as I had never seen. I was taken with its attraction at first sight. With their encouragement, I attended an IBM workshop as I was fascinated. Unexpectedly, there were many in attendance, primarily accountants and tax specialists.

I was not merely surprised; I felt a tremendous shock! At that time, they were using a PCS - a Punch Card System - that operates by storing information via holes in cards, with electro-mechanical systems that could read two thousand of these cards in a minute. Watching this machinery reading cards from above, it appeared to me as if these cards were a piece of fabric. The machine was reading 1, 2, 3 and 4, then placing the cards into pockets.

In Japan at that time, the abacus was still the main tool for calculation. We also had a Tiger calculator, which could perform multiplication with the turn of a handle a specific number of times. Of course, at that time, we did not have electronic calculators. So the flow of the system that could sort cards, calculate them and print out results was truly extraordinary. My first impression was that “it was quite natural for Japan to lose the war to the United States, if they have such wonders as this.”

At that time, I had no clue that this system would in time become what we know today as the computer, and spread across the world, changing entirely our lives, our industry and our culture.

Well, in a vague way, I felt something alluring regarding the possibilities of this machine. I had heard that in the United States, this machine was in wide use in accounting offices and other companies already. That led me to think, quite casually, “perhaps, in time, this machine may become popular in Japan as well. This could develop into a huge business.” This was my “prophetic manifestation.”

Actually, at times I try to recall an impression of this salesperson, but I cannot, failing to recollect either his appearance or even a little of his outlook and demeanor. Perhaps the impression of the mysterious machine was too strong.

That episode later became a part of my poem. (Book of Poetry “Before the Stock Listed,” 1977)

One after another, eating cards and reckoning,
Never ending its exertions
You, apparatus, what is your manifestation?

It is a poor poem but it shows my fear and awe before the coming long relationship between humans and computers.

Making the “prophetic manifestation” real.

Following that incident my older brother passed away, and naturally IBM’s machine promotion to his firm faded away. However, a best friend of my older brother told me “I was supposed to establish a calculation agency with your brother. Would you like to take his place in funding and establishing a company with me?” Just at that time, I had sold my taxi company and he knew that I had some cash.

I decided to provide one half the funding needed and participated in the management of the “Osaka Calculation Agency” and the “Japan Calculation Center” (now known as Cycom). It may seem that I joined these groups to follow their own paths. But what convinced me to start on this path was that this was an industry related to the computer, whose potential I had felt.

However I came to the realization that the calculation service business took a surprising amount of time and expense, but it was its fate not to develop immediately. At that time, if you rented even a small calculation machine, I recall the cost to be approximately 2,000,000 yen per a month. If sales did not reach 3.3 times the cost of rental, there would be no profit.

At that time, the only profitable agencies were those that serviced financial institutions such as banks or securities firms, or agencies that were a part of large parent companies. At the smaller calculation agencies - local calculation centers - in bad cases, it could take five years to make a profit. If I continued to run this agency for rest of my life, the best I could hope for was to have two or three agencies in operation.

However there were large obstacles to entering the hardware market, and so I considered the service business the best choice. I believed that software services would have every possibility of success. At a “local calculation center” a great deal of money and time was required to expand business, and learning the latest technology could prove difficult. I thought it’s more clever to stay close to the development of application software in order to obtain competitive high technology. In truth, I had an order from a representative company in the Kansai District and I had a chance to learn while working.

What’s more, there were technicians in the software market who had moved on leaving manufacturing companies, but there were no professionals who understood management or sales. In secret, I had every confidence that I could build a successful business, since the industry was still young, with great prospects. But the scale of its growth was unknown.

More than that, I felt I had fallen behind others in life as a result of a long period of illness and recovery. To make a success of my life in a single generation, I had to advance my business in an immature field. I always wanted to challenge an industry where “brand recognition” proved less of an obstacle in entering the market. The new software industry provided just the right conditions for me.

In October 1968, I established a company called “Computer Services K.K.” (the predecessor of CSK) whose name exactly represents itself as “the company that can provide complete computer services.” The location was Yodoyabashi, Chuo-ku in Osaka. I was already forty-two years old.

The initial capital was 5,000,000 yen. There were only ten employees. We started from nothing - as is clear, we began without title, reputation, or technology - with nothing. The first employees were called computer assistants, but they were amateurs with little technological expertise, who struck out from large corporations. I can honestly say that the only talent I could offer was a willingness to try to create something of substance starting with nothing and a determination “not to allow the company to disintegrate.”

After all, the establishment of this company was a first step towards making the “prophetic manifestation” come true.

The “Give ‘em Hell!” spirit.

This was how CSK started. In the first few years, it was a challenge to simply build sales - making a profit was out of the question.

At that time most software companies were subsidiaries or sub-subsidiaries of mainframe manufacturers. They could build business by receiving work from parent companies. CSK however was completely independent and business did not come easily. Thus day after day, all of the employees, myself included, walked our legs off, making sales.

The first big opportunity for CSK was the Osaka Expo. We were fortunate to be given the contract for a payroll calculation system and a parking system.

That was our stepping stone, and for us the beginning of a new era came with a work contract with Matsushita Electric Industrial Co., Ltd. At that time, Matsushita was setting up large computers for each division of the company. They assigned to us the operational work, simple systems operation and other wide ranging responsibilities. Receiving an order from “Matsushita Electric Industrial Co., Ltd.” was a great credit to our business in the Kansai District. Cultivating business with large corporations in fact created for us a great advantage, and confidence in our company increased dramatically.

However we suffered a great deal of financial distress, and I was dealing with the banks every day. If I am allowed to brag about one thing, it is that we were never late making payroll for our employees, no matter how much agony we were in financially. Now when I come to remember those times, it is embarrassing to report that I tried to buy time by delaying tax payments and social insurance.

When I finally paid the monthly salaries of my employees, my body dried up and I always caught a cold. Of course, during those days I did not take any salary personally. I always kept my “Give ‘em hell” spirit and worked for two or three people - making sales during the day, creating systems at night. We combined our energies together and managed to survive.

In 1972, I finally came to the realization that we had crossed over a major mountain pass. Five years after establishing the company, we had made 13,500,000 yen of profit. The gross sales total for that year was 770,000,000 yen and number of employees had increased to three hundred and twenty.

I might have chosen the easy way, entering the mainframe industry's lines of business, if I did not have the "Give 'em hell" spirit. And now there is today's CSK - which is leading the industry as the largest independent corporation. Although, when I come to think of it, the fact that there were no head offices of mainframe manufacturers in the Kansai district might be also a big factor determining that I did not have the option to choose an easy way out.

But it wasn't that simple. I believe I could have overcome these difficulties even if conditions were worse. I had no one to teach me, no specialists or instructors. I did not depend on anyone, I sketched my own dreams, designed my own plans, contemplated by myself, went to talk with people, made them understand me and brought many to my side with my "Give 'em hell" spirit. As a result, the effort bore fruit and the business grew little by little.

Of course I should not fail to mention that all the employees at that time made a tremendous effort. Thus, when we survived the crises and crossed over the great divide, we experienced a great sense of gratification and no words can describe that joy.

2.2 The Transformation From Prophetic Manifestation To Affirmation Of The Development

In 1969, one year after I established Computer Services Co., Ltd., I took a tour inspecting American industry. During that trip, I became convinced that software will give birth to the next generation and the software industry will become a star industry.

I had established a company, but still I had some doubts at that time whether "this direction is the right one." But the computer had been widely distributed, and with that, operations and programming work had increased. The increasing demand for software was destined to accompany the growth of hardware. I had some confidence based on my own experiences as well.

However I had not yet felt convinced, continuing to wonder "if CSK's approach to business was OK? We go to the users of computers and supply various services starting with supplying software. Is it really a good strategy or could the business take other forms?" at that time.

Just at that point, I received an invitation to go to United States. The invitation was to inspect computer systems in use at a large American corporation. I determined to go.

In those days, travel to foreign countries was much less common by comparison to today and the exchange rate for one dollar was three hundred and sixty yen. It took a lot more money to go to United States than now. I thought that I should make the most of this expense and collect all the books then written about the American computer situation and try to comprehend or at least absorb as much basic information as I could.

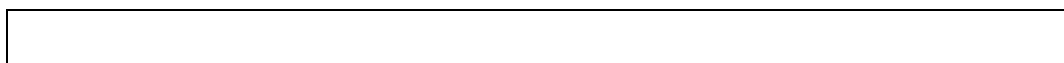
In one of the books that I read at that time, there was a mention of the term “Facility Management” (FM). The term referred to a practice by which one company maintains ownership of every system component, from the hardware to the computer operators, and supplies all services to clients - a system now called outsourcing. In short, the entire job is shopped out. I thought, “this is the same service we are offering right now. There is a company succeeding in the United States doing exactly the same thing that we are doing at CSK. Good, I will go and see them.”

The most successful company using facility management at that time was EDS (Electronic Data Systems Corporation). EDS is the company founded by Mr. Ross Perot, the US presidential candidate in ‘92 and ‘96. The computer room at EDS offices in Dallas had the look of a large gymnasium standing on one half of a golf course. Large numbers of employees swarmed around the huge place. At first, I was overwhelmed. “This is amazing,” I thought. However, the more I understood their organization and the details of their services, the more I felt that “CSK offers more specialized services.”

If they can grow this large with this level of service, CSK can be larger. The direction I am taking right now is not wrong. I felt confident.

This American inspection trip gave me confidence and provided a signpost indicating the correct direction for CSK.

That was the moment when my “prophetic manifestation” evolved into “conviction.” In November 1970 issue of “Computopia” (published by Computer Age Corporation), an article appeared entitled “Users of TSS - Time Sharing Systems” - the report on the 1969 inspection trip. We may be able to see prototypes of today’s cordless devices in communications systems and media and laptop business computers. This may be a little long but the following is the article (as it was).



Users of TSS

- a vivid picture of the merger of communications and computers

TSS on a Global Scale

Recently in the United States the number of TSS (Time Sharing System) service corporations increased rapidly, with more than one hundred fifty companies in 1969. Its history is still short and not all of those companies are profitable. Further, the fields for possible application seem limited. (Continue)

At this time, we analyzed primarily locations with the most advanced TSS technology; for example, GE related TSS centers and users and Universities, among others.

Figure 1 : International TSS Services

GE has the most advanced TSS technology in the United States. They have in commercial operation some fifteen centers for the purpose of supplying TSS services. Based around three main centers, they are planning and implementing TSS services on a worldwide scale.

Those three service centers are in Teaneck, a suburb of New York, in Cleveland, Ohio and in Los Angeles, the location I visited. These three centers use large computer systems, a GE635 (TOSBAC5600) while on the other hand some centers use middle sized machines such as the GE400, or the GE200. They have completed system on a global scale, with orders processed from a London terminal sent to Cleveland, for further processing. (Refer to Figure 1).

TSS center in Los Angeles

The TSS center in Los Angeles has service areas in eleven states in the western United States and the western part of Canada. There are 1700 teletype terminals, with an estimated 50,000 users. I inquired about the sales volume but they had no comment since competition is intense.

In this center, they use primarily two GE635's and they also have three GE200's. The GE635 uses TSS's proprietary operating system, the MARKII. GE supplies an operating system called GECOSIII that operates TSS, remote

batch jobs, and local batches at the same time for general users. The MARKII is a specialized system designed for time sharing transactions.

The computer room was so spacious; it was like a gymnasium. In that location, many racks of data processing machines stand close together. They are planning to add two more GE635s and have reserved space for them. The thing that attracts the most attention within the computer's I/O was the disk. They have more than ten units of magnetic disks, and each unit can record some 15,000,000 characters. They are planning to increase these numbers continually in the future. (Continue)

TSS terminals (acoustic connection device)

Next, I would like to illustrate the operating system of the terminals most popular among the TSS users.

This is the method for connecting telephones and terminals using an acoustic coupler that converts sound in the form of analog signals to digital signals.

Figure 2 : Talk to the computer using a telephone

At first, call the TSS center using a telephone. When the telephone connects, you will hear a distinctive noise and you will know that you are connected to the computer at the TSS center. After hearing this sound, plug the telephone receiver into the cradle of the acoustic coupler. Then you press keys on a typewriter (the TYY33 from the Teletype company were used most commonly) and those keystrokes become electronic signals. Acoustic couplers convert those electronic digital signals into analog sound waves and communicate via the attached telephone. The telephone's job is to communicate the sound and its contents that was written by the typewriter is to be sent to the TSS center by via telephone line. The telephone receiver at TSS center is also connected to an acoustic coupler, where the sound is converted into digital electronic signals which in turn become input to the computer. The output from the data processing machine is then connected to the customer's typewriter sending information in the exact the opposite direction. (Refer to the figure 2.)

One characteristic of this method is that it can utilize any general telephone line as a carrier. This makes it very easy to order service from the TSS. Once you acquire a typewriter and acoustic coupler, you can use TSS services within one day. I held a typewriter to check it's weight and it seemed light enough to

carry around. The size of the acoustic coupler was about the size of a cassette recorder. These devices can be rented for about \$100 a month casually. The computer user fee and disk user fee for filing at GE is between 50 cents to one dollar a month on a 1280-character basis. Incidentally, the privacy of each customer will be under tight security. Two or three passwords can be prepared, and if you would like to access data, you must enter all three passwords using the typewriter. I was very surprised at the use of general telephone lines for the transportation of information, since we do not have that system in Japan.

(Continue)

Visit TSS user (omit)

Figure 3 : The disk is the organized business executive's desk

Unlimited application of sound connection

Previously I have described the operating conditions at the TSS user sites that I had previously visited. If I could describe the impression in one phrase, I was shown the vivid picture of the merger of communications and computers. What I was most attracted to was that previously mentioned acoustic terminal. Is it not the most promising new time sharing device? The reason why I felt so was that:

1. It can be carried easily
2. If there is a telephone, anywhere, whenever, anyone (if they take two hours of a BASIC language lecture) can use the system, even a child.

For example, if a sales person took this terminal with him or her wherever they go, they can check stock, review the manufacturing process and delivery dates or place orders and schedule delivery using a near by telephone line. Doctors could send electrocardiograms of a patient who is in serious condition and cannot be moved to the hospital. If this terminal usage spread further, data from the field or actual scenes could be input immediately and that would provide a powerful advantage for determining sales strategy - leading to management strategies - and the resulting changes would be dramatic, I believe. Also, the acoustic connections could be used as well for fax machines in addition to TSS, using the public telephone lines. At this time in United States, a machine called Magnafax (a public telephone line plus sound connection device) could send written or drawn information to remote places.

As mentioned previously, the possibilities for utilization of acoustic connections is unlimited and I believe that the effect of this technology will affect not only the computer industry but that the impact on the entire information economy will be immense. In the current Japanese system, there are many obstacles, including the limitation of telephone lines, pricing, programs and so on, thus we cannot take advantage of this same type of system at this time. But I eagerly await the day when these obstacles are overcome and the information society will develop - a day I hope will come soon.

This was my report published in 1970, one year following the inspection trip to the United States. I would like to add some explanations.

At that time, there was an organization composed of Toshiba Users called "Tospack." The trip to study American industry was sponsored by this organization. While we were in the United States, they held a User's Conference in Phoenix. There, I heard that GE had sold its computer division to Honeywell.

In the hardware arena of the computer industry, IBM was a giant and I think GE decided that they had no chance to win in this competition. At that time I thought all the computer manufacturers would either go bankrupt or lose power because so much capital was required to create computers, even to the extent that GE abandoned the effort. And it actually happened as I thought.

GE sold its computer businesses, keeping only the TSS division. When I think of it now, they might have predicted the popularity of satellite communication.

As I mentioned in the "TSS terminal (acoustic connection device)," I was most surprised by the fact that if I carried a terminal about the size of a large briefcase and connect it to the telephone in the hallway of a hotel with an acoustic coupler, the terminal would be connected to a host computer, and we could draw a picture, input numbers, and calculate or reference stocks.

I predicted that if this terminal came to Japan in the future, sales methods would change dramatically. Now, twenty-five or -six years later, the time is coming to us soon and it has an overwhelming power. But this also suggests that business cannot prosper if the time is too early.

The next development that amazed me was the TSS system at GE. America is a vast country and they have time differences between the West Coast and the East Coast, almost as if they were two different countries. When the West Coast is in its daytime, on the East Coast it will be night. At that time, the computer was enormously expensive, and thus at night when no one on the West Coast was using the computers, they would be used by people on the East Coast. That would also be the case in reverse. That gave rise to the idea of time-sharing.

My most stimulating experience, that inspired me with confidence in the development of our business in Japan, was our visit to EDS. They separated nine holes from eighteen in a golf course in Dallas and put a “monster” computer building there. Companies that required complex calculations, such as life or casualty insurance, sent computers and technicians to that huge building to conduct their operations and engage the available services.

This was the Facility Management, in short, the FM series. At EDS they had only operational services while at CSK, we had more detailed assignments including programming workflows, thus my “prophetic manifestation” advanced to a “positive” confidence.

At CSK we differ from EDS because we sent our technical employees to the users to work on site. At first, these dispatched employees begin by “assisting” in calculations and at the end, they became an essential “partner” to our clients.

CHAPTER III

GRASPING THE PROPHETIC MANIFESTATION OF THE INFORMATION CENTURY



Mr. Okawa holding the permit for the CSK Corporation stock listing for the Tokyo Stock Exchange.

3.1 To Establish The IT Services Industry

Do I dare venture to say “the stock will be listed in five years”

In 1972 CSK Corp. made a profit for the first time. The following year, I held a Fifth Anniversary Ceremony with my employees, who numbered five hundred thirty at that time. There, I proclaimed a new five-year plan “I will propose that the stock be listed five years from now.”

The employees were surprised to hear me saying, “ Let’s make our stock, worth now only fifty yen, to be worth one thousand yen.”

At that time, as it happens, CSK Corp’s sales totaled approximately one billion three hundred million yen, and our profits were only 70,000,000 yen. Obviously, these numbers are far from what would be expected for a normal stock listing. Even someone from a securities firm who heard the story muttered “can that be true, Mr. CSK?”

However I had an idea. “Growth often follows when someone takes a risk and declares to the world a grand, proud vision.”

For one, the bigger the target the better. This makes the goal easier to understand and something that could bring my employees together. For another, “We humans are weak. If we do not declare our ambitions, we might go with the flow (meaning that we take the easy way out). But once we declare ourselves in public, we have no choice. It would be a shame if I could not complete what I have announced. I am going to burn my own bridges.”

After that, “for the stock to be listed” became the earnest wish of every CSK employee. I myself and many others put forward our best efforts to come up with some ideas to achieve that end.

There were some obstacles keeping our stock from being listed on the market. Most of those obstacles originated from the fact that CSK Corp. was the first entry from the software service industry to take up the challenge to be listed.

The first obstacle to clear was to achieve stronger business results than the standard for listing stocks (a standard more strict than now) determined by the stock exchange.

The second obstacle was the real problem. CSK Corp. was selling something intangible, like software or services and furthermore, in those days appreciation for computers was limited.

If we said, “FM (Facility Management) is our business,” people would reply “do you mean FM radio programs?”

We needed to advertise the software service industry and promote the prospects for the industry.

The third obstacle was to create the initial stock price appraisal, since there were no other listed companies in the industry that could be compared with CSK Corp.

This is the destiny of leading companies. In 1957, Taisei Construction Co., Ltd. (known as Okura Gumi Co., Ltd. that time) succeeded in listing their stock as the first company in an industry then made up of groups of carpenters and small contractors. After Taisei Construction Co., Ltd. provided this breakthrough, more and more companies from the same industry listed their stock, and as the result, they established for themselves a respected position within society.

I knew that, once listed, companies could acquire excellent technical college graduates year after year. Thus, I was determined that the software industry should also have many public companies and that the industry itself becomes substantial. I was determined to make it possible for a business that deals with intangibles like software to be recognized.

To become a company listed on the stock exchange meant to cross over that major borderline with regards to trust and credit, as well as attaining employees and money. This accomplishment prevents bankruptcies, and I have witnessed a large number of bankruptcies affecting small and mid-sized companies when I was working at an accounting agency.

Once I founded a business, I never wanted to suffer the pain of bankruptcy and I never wanted my employees to experience that pain.

Hiring a large number of employees while others pursue the opposite trend.

The year 1973 was known as the year of the “oil shock,” which was the result of the outbreak of a fourth war in the Middle East. The sudden rise of energy costs caused a sudden explosive increase in prices, difficulties in securing raw materials, and fear in the future. The majority of companies then busied themselves in self-defense, cutting expenses, curtailing production, paring down the number of personnel and so on – Japan, having enjoyed a long period of economic growth, instantly fell into depression.

In the following year, 1974, I planned the CSK's first periodical employment³ and not only that, I have decided to make mass employment - 168 new employees. We had only 540 employees at the time, so we were hiring one-third the number of the old employees.

The aftermath of the oil shock was severe, with the recession lasting long, and in general, decreases in the workforce were expected. Most newspaper articles also outlined the "recession" and "personnel cuts."

In this environment, most companies in the industry were spreading rumors that "CSK is reckless. They could put themselves in bankruptcy doing things like that." And indeed, these critics might have been correct that according to what would be considered common sense by the general public; our actions were, in fact, reckless. However I sensed the prospect of victory.

I had visited many of our clients' electronic computer rooms and asked about their situation and how they were affected by our policies - I value maintaining close relationships with clients and getting the micro view from the field (the actual working scene). As a result, I discovered that most of these computer rooms had only a few staff members and that the workload was becoming very heavy as a result of cuts in personnel.

With that I decided to proceed with the bold stroke of engaging large numbers of new employees, ignoring the actions of other companies, in the belief that we had the opportunity to hire excellent employees during times of recession. As a result, many top students from departments of science and engineering in state and public universities joined our company. After these events, CSK Corporation's business expanded dramatically and our firm became clearly differentiated from other companies in the industry.

The famous economist Peter F. Drucker once suggested that "software companies with more than five hundred employees will go bankrupt." However, I believed that as long as management is strong, we would be fine. I assumed that all would be well for us if we avoided specializing but sought instead to integrate our business.

³ In Japan it is common practice in the spring of each year for most companies to hire new employees from the new graduating classes. This type of employment is known as periodical employment.

Confirming our position as the client's partner

Along with the mass employment of new graduates, in 1973 and 1974 I asked for dramatic price increases from my clients with the argument that “to provide high quality work, we would like to receive this much reward.” It was a request made with confidence following serious deliberation.

Here are some extracts from the document we produced at that time (1974) called “To Seek Your Understanding.” It is a little long, but this may help you to understand the situation we then faced and what was our basic policy (same in the original).

“TO SEEK YOUR UNDERSTANDING”

=We differ from others on these points=

DISPATCHING OPERATORS IS OUR SPECIALTY

A long and prosperous experience

At CSK Corporation, we have the largest number of clients and employees among software companies, and we have developed rapidly in recent years. The fact is that recently, most managers of computer rooms have had trouble keeping and managing operators. We believe that the reason why we have been fortunate enough to remain successful is that we believe that we are destined to maintain the dispatch of operators as our specialty. This is our primary business since we came to the conclusion that our role in supporting the Japanese information society is to provide a continuous supply of operators.

Pride in “rolling up our sleeves and getting our hands dirty”

Since we first were established, at times we have been described as being in the “human leasing business.” In spite of this insulting description, we used our passion to stay focused on getting our hands dirty with the plain, uninteresting work without seeking to escape to activities felt to be more sophisticated.

(Continue)

During the Japan's century of leisure, we were not tempted to go with flow, but kept working Sundays, Holidays and throughout the night. We have been happy to be the workmen of the "information operation factory" often in working environments like some muddy marshland and we have been honored to serve our clients in this role.

Only those of us at CSK Corporation claim pride in "rolling up our sleeves and getting our hands dirty" and are happy to continue working at it.

Many assets

We have eight hundred young operators, with responsibility for one hundred and seven computer rooms, which we have worked every single day assiduously for five years. In our history, we have accumulated a substantial knowledge of operations and of managing operators.

We have built up assets that cannot be found elsewhere and have been able to secure a professional workforce who can work seriously in "muddy marshland" conditions.

A Unique System of Management

We have various clients dispersed through a vast area. Each has different working hours and different tasks.

Managing the operators in just one computer room is by itself a difficult task. Thus, managing all of these operators on different jobs presents complicated management problems. If we simply dispatch our operators, and nothing else, we will not be able to maintain a stable business.

Thus, we developed various and unique methods of management, for example, how to handle the situation like a fire in the middle of the night at a client's firm.

We not only maintain a day and night, twenty-four hour operator support prepared for handling accidents, but also have defined systems for handling communications and managing the situation.

(Continue)

We have an entire distributed management system with inspection patrol service consisting of senior operators. We also employ various reporting systems utilizing our company's standard daily operational reports, monthly reports, management objective files and so on. These are effective for maintaining standards and improving quality. Also we pay attention to our employees' private lives since our employees take care of a critical part of our clients' business. We try to maintain a comprehensive system of management and guidance by regularly visit employees' homes and by establishing a "NAC system" which is a network of contacts connecting individuals within a residential area.

Making everything systematic

To make a complicated and diverse "management" run smoothly, we have standardized everything and created manuals for every situation and we use them regularly in our work.

- Thorough training (omitted)
- Every effort for every matter (omitted)

WE ARE INDEPENDENT

Maintain an impartial position

We hope to be loved by all of our clients. Since we have the largest number of clients in the industry, we have the widest variety of "experience" in this business. This is because that we do not favor one client over another and we honor and value each experience.

If we are engaged with some business group and circulate experiences that are only associated with a specific company or group, that means that we are abandoning our trust. This further extends to the loss of the very basis for our existence: to be beneficial to our society, and to abandon the integrity referred to in our company motto, "to provide the human flesh that forms a foundation in the muddy marshland for the purpose of building a Comp-Utopia."

(Continue)

Certainly if we joined forces with a specific group, many things would become easier. However it is our creed to remain independent irrespective of the number and strength of the impediments and adverse conditions we face.

Obstacles for companies belonging to a business group

In general, companies that belong to some business group are vulnerable to various restrictions from the parent company or from financial institutions. With regards to personnel matters as well, often something undesirable happens.

In our company we believe in opening the door to employees who are capable of being truly beneficial to society through our company, and thus we believe in the need to approach personnel issues with an attitude unbiased by politics.

Also we need to change directions quickly and flexibly when necessary to meet our clients' needs.

In addition, we would like all of our customers to own stock if they choose, and for that reason also, we need to be independent.

ASSERTIVE HUMAN RESOURCE ACQUISITION

Connections to schools (omit)

Driving all employees (omit)

Effective advertisement (omit)

Never ending supply (omit)

BECAUSE WE ARE THE LARGEST

We have experience in many fields

We have become experts on managing and operating, to this point, one hundred seven computer rooms, and we have the honor of being the largest independent company in this industry.

(Continue)

As the number of our clients grows larger, the greater our precious “experience” will be, and we can better return the benefit of that experience to our clients.

We are always prepared and happy to return this “experience” to our customers.

Our strong point is software

We differ from other companies including “card punch companies” or “software companies” that have started dispatching operators as a derivative of their primary business. From the beginning, dispatching operators has been our primary business.

Now, as a result of the value of our business scale, in the pursuit of our primary business, we have become at this stage a leading company in software.

For example, we had orders for and delivered “debug simulators for on-line computers” and “document management programs” from the Information Operation Promotional Association which is an affiliated organization of the Ministry of International Trade and Industry. There are no other private software companies with two lines of business. It is said that “Autoflow” - a system that draws flow charts automatically - is superior to that offered by IBM and our software development capability is attracting much attention.

Work on automation

We dispatch operators to computer rooms but at the same time, we believe that computer rooms in the future must be automated and unmanned. We are working on automating operations, leading the industry in this effort, by working on joint development with machinery manufacturers and by purchasing know how from other countries.

However this will require an immense investment and we concluded that the government should be involved. Therefore, we are dealing with the Minister of International Trade and Industry to obtain governmental financial aid.

(Continue)

Extending business overseas

This spring, 1974, we plan to extend our business to New York as the first step in creating bases in foreign countries, on behalf of our customers who employ our services in foreign countries, as well as to support our own effort to acquire high quality foreign technologies.

This move is very important since we are the first in this industry to promote our business in the opposite direction - to America, where this industry got its start and where now a Japanese company is moving to the home ground of this industry, to the United States, at a time when the software market is beginning to standardize and open up. This will have a powerful impact on the Japanese software industry.

Last year at our overseas exploratory trip, we learned of technology from CSC (Computer Sciences Corporation) that includes advanced technology from NASA, of the TELEX Corporation that has know-how in systems for analyzing software efficiency, of XY-TEX Corporation that has developed automated machinery, and so on. We are determined to develop and introduce the latest technology possible.

=An Entreaty=

WORK WITH CLIENT'S UNDERSTANDING

The structure of the industry will change

The Council on Industrial Infrastructure makes it clear that we must position the intelligence industry and information operations industry in the future as primary industries. They also make it clear that without these industries we will not only fail to create a Comp-Utopia, but in addition Japan will have no possibility of survival in the international division of labor. They appeal for some action.

(Continue)

Also the Nomura General Institution named three fields for future developing industries - information operations, services and leisure. They report that all industries must begin serious work on the transformation of our industrial infrastructure.

The Case of the Construction Industry

In the construction industry, originally the primary energy in the industry was made up of the small companies of carpenters, construction workers and plasterers.

As a result of power struggles with clients, many in this industry were forced to be taken advantage of, with many companies regularly going bankrupt. In order to survive, many had no choice but to compete with each other through price reductions. Under these conditions, they could not invest in new technological development, or obtain sufficient funding, materiel or technology to secure large-scale jobs or to reserve enough energy and resources for other activities.

However they gradually gained power. Ten years ago, only eight companies listed their stocks on the First Section of the Tokyo Stock Exchange but now, the number of the companies with stocks listed exceeds the number in the electricity industry. The industry has developed to the point that it is now the nation's primary industry. As a large industrial group, they increased demands over other industries and played a very important part in expanding the gross national demand.

This was made possible by a movement by the Ministry of Construction and individual companies to provide guidance to the construction industry in order to put a stop to this unsettling price competition and to promote orders based on standard prices. But for the most part, private companies that were the clients of this industry understood the critical condition of the construction industry and cooperated with them, believing that “we must develop this industry.”

(Continue)

Building the industry

Now customers tend to order more and more programs and software from sources external to their company rather than investing their own time and personnel resources for one-time projects.

The Committee on Computerization announced a total investment of 995 billion yen through 1980 for the mid-term impact plan with regards to large scale projects based on government related jobs or jobs from local autonomous bodies. Japanese software companies are not quite competitive enough to respond rapidly to demands for the software.

We will soon face a free market in the software business and the industry is increasingly agitated by the frightening prospect of “the vast Japanese software market taken over by foreign companies.”

Japanese software corporations are making desperate efforts to become more powerful.

Convenience corporations survive

Old-fashioned software services led by hardware manufacturers are not exactly customized and they are purchased with expensive machines. Only specialists in software are capable of creating software or programs that are designed from user's point of view and truly care for their needs.

Especially at major corporations - which have now become international - with stocks listed in the First Section of the Stock Exchange, the realization has come of the on-going need for these “useful” software service companies that are capable of supplying any number of specialists at any time, and they understand the need to develop them.

(Continue)

SHIFTING TO THE PROPER PRICE

The market price (omit)

Mystery of the cost (omit)

Even mid-size corporations are going bankrupt (omit)

USE THE LIVING MONEY

Company functions (omit)

Advertisement (omit)

Move to the new office building (omit)

COST OF EMPLOYEES

Conditions with our clients and ourselves are very different (omit)

Too little profit (omit)

Very little profit (omit)

DO PRICE INCREASES CONTINUE IN THE FUTURE?

Supplying services

In the case of simply supplying operators, we must raise our prices as long as other personnel expenses and commodity prices increase.

Ages ago, it was “cheaper” to order services from outside the company rather than handling that job inside of the company. However, these days, it is naturally expensive to order from outside sources because of the nature of the work and the increased level of responsibility.

(Continue)

Also in the past, those prices were mostly to cover the cost of the labor itself and did not include any technical charges or additional charges for developing proficiency or skills. Therefore in the future, these costs will be included in the price.

On the other hand, the cost of machinery will decrease and more and more tasks that used to be done by operators will be handled rapidly by improved equipment. Thus until this point of divergence is reached, the prospect is that the cost of our dispatch must increase.

FMS does not have to increase costs

Even if customers choose to order operators from outside of their companies, the total cost of operating the computer room will gradually increase.

FMS - Facility Management Service - is trying to operate computer rooms by making changes from the bottom to the top, and seek out new ways to decrease costs.

In other words, FMS is to receive an order for the total operation of the computer room including rental fees and supplies the full range of functional services from input to output.

That defeats the limitation on expenditures of individual computer rooms by operating many computer rooms as a single effort.

The biggest expenses in the computer room are machinery, personnel (employee payroll), and fixtures. It is natural that prices should be dramatically more favorable if we purchase these items in large numbers. This includes the expense of salaries for operators. If we manage to successfully coordinate business operation peak times across different types of industries, we can decrease the number of operators and decrease the total amount of personnel expenses.

(Continue)

In our company, we ask for the complete service order because we believe that approach will bring profits both for our clients and for ourselves and we will be able to provide greater efficiencies.

Advancing an Efficient Division of Labor

Currently, most corporations entrust some section of their work to other companies, in the so-called division of labor among corporations.

Obviously they have strong trusting relationships between the party ordering the work and the party assuming the work. It is certain that work in computer room must be distributed as well.

However we believe in shifting to FMS with regards to current contractual approaches. We are trying to improve the contractual approach by moving from an approach based on manpower to an approach that measures “the price by using one machine,” “price of processing a certain amount of work,” and so on.

In 1977, our stock will be listed on the Tokyo Stock Exchange

As such, shifting to the FMS is the major transforming force among advanced nations and we are determined that the real FMS era will begin in 1977 from point of view of the pioneer. However FMS requires immense capital, and therefore we are planning to accomplish the objective of getting our stock listed on the Tokyo Stock Exchange that year and to offer our stock in the open market.

OUR COMPANY’S POLICY AND DETERMINATION

At our company, we are determined to commit ourselves to the full service business and we aspire to be trusted and admired forever. We have a solid belief that we can be of benefit to society. To avoid extinguishing the flame of our confidence, we would like you to understand our real character.

We are determined to make every effort to give you the finest service.

Negotiations with customers presented one trouble after another. Almost no customer agreed with the price increase at first. In particular, that was during a time when the economy was still in a deep recession. However we were determined to go forward with the plan. We explained that the value for users will increase. We even used a metaphor that we are like the doctor that keeps the patient's heart working, or like the lawyer that defends the client's work to others, in our case by taking responsibility for a critical section of their work - the computer room. It took a long time, but as a result, all clients ultimately accepted the price increase.

More important than the fact that our clients accepted this increase in price, is that as a result of these negotiations, we could demonstrate what CSK Corporation is and help our clients recognize the quality of our service. This price increase helped CSK change its image with its clients from a regular contracted broker, to a full partner. That created a remarkable breakthrough in the acceptance of our company.

Also with these price increases, the basis for CSK's profitability became sound. In addition, CSK became the industry's price leader.

3.2 Stock Listed On The Market For The First Time In The Industry

A lucky 1st opening on the over-the-counter market

At the same time, we were advancing preparations for our stock to be listed.

In 1974, we started the Employee Stock Ownership Plan. In 1973, in honor of the fifth anniversary of our starting flame, we initiated the "Merit Stock" to secure the basic assets of our regular employees.

In 1976, we increased our capital to 210,000,000 yen by face value allotment and allotment to third parties. In 1977, the capital increased to 340,000,000 yen by an initial issue of ten percent without compensation and the remainder by allotment to third parties. In 1979, the third issue of the third party allotment and twenty five percent without compensation brought our capital to 500,000,000 yen and fulfilled the requirements for listing stock.

In 1977, I moved CSK's headquarters from Osaka to Tokyo. Tokyo has a high concentration of information resources and the market size of the computer related industry as a whole is very great. The market in Osaka is not comparable. It was

during that time that corporations not only in the software industry, but also many large Kansai district corporations from various industries who were seeking greater potential were moving their headquarters operations to Tokyo.

I had been thinking then that the time had come to promote the businesses of CSK Corp. across the entire country. Moving the headquarters was one part of that plan. At the same time we solidified bases for offering IT services on a national level by establishing business offices all over Japan, beyond our existing offices in Tokyo and Osaka.

On September 2, 1980, CSK offered its stock publicly on the Tokyo over-the-counter market.

By that time CSK had become a corporation that fit the conditions for listing stock, and even exceeded to a large extent the standard for listing stock set by Tokyo Stock Exchange. However the provisions of the application procedures for listing stock changed while we were submitting our papers. That made me think, “as long as we are going to apply for the stock to be listed, we better apply when we are completely ready. Rather than our stock to be priced at some mediocre level, I would like to go into battle when we are in a very strong competitive position.” Thus I decided that offering the stock on the Tokyo over-the-counter market would provide a final time of preparation for the full listing of stock.

Here again, the Goddess of Luck smiled on me again. Originally we were prepared to offer over-the-counter stock on my birthday, May 19th 1980. However we had some unresolved matters to deal with, such as third party allotments, and we chose to postpone the date to a later time. As a result of that adjustment, we changed the date to September second.

On May 17, 1980, when we had just begun to relax after deciding to postpone the date of opening, a no-confidence motion on the Ohira Cabinet of that time was accepted by the House of Representatives, and the stock market experienced a major crash. I was astonished at first, and then relieved. I felt that my luck was strong. If we had opened on the over-the-counter market at the time we had originally planned, on May 19th, with the impact of the market crash, our stock probably would not have been priced to our satisfaction.

Luckily we postponed the opening date, and CSK's stock was priced at thirty times its original valuation - from 50 to 1,500 yen per share. With this price as a guideline, single sales bids were made and all 800,000 shares were sold at the high price, 2,800 yen. I really felt blessed with strong good luck.

Also waiting for the over-the-counter market for two years was fortunate for CSK. During those times, the powerful movement of the information economy was advancing through the industrial world and through society. That gave CSK unexpected strong support.

With the 13th term statement of accounts in September of the year 1981, just prior to our application to be listed with the Second Section of the Tokyo Stock Exchange, we had 17 billion 2 hundred million yen in sales, with ordinary income of 2 billion and 5 hundred million yen and the net profits of 970,000,000 yen for that term. Our capital was 500 million, our employees numbered 3,000 and all the requirements for listing stock were cleared, in particular profitability, where we greatly exceeded the requirement.

Already inside our company we had a special project team working on the stock listing. The entire company was working day and night towards the submission of the application forms and regular related papers by that December of 1981.

On December 17th, a general meeting of stockholders was held and the statement of accounts gained official approval. Finally, all the preparations were complete.

One week later on December 24th, I summoned my executives to a large meeting room at noon. With these executives as witness, I marked each sheet, one after another, with the impression of the company's seal.

This ceremony was called “the ceremony of the application to list stock.” While I put the company's seal in ink and marked the impression on that immense collection of documents, one by one, many memories came across my mind and I was overcome with emotion. After I finished with the company's seal, we all celebrated with a “stock listing achievement lunch box.” Following that ceremony, I left for the Tokyo Stock Exchange.

Arduous stock listing investigation

The die is cast.

For me, this was the result of my twelve years of sweat and tears following the establishment of the company and it was the earnest wish of every employee. All the executives and I met at the building of the Meiji shrine and prayed with the priest a Shinto prayer.

The New Year of the 1982 started and an investigation at Tokyo Stock Exchange began, even before the nation finished enjoying the New Year celebration.

The documents for this investigation, including the additional papers to answer questions, added together would fill one and one half station wagons. Further, each time they asked questions, such as “What kind of standards are you applying to create this condition of contract with this client?” or “What kind of personnel policies do you have,” we had to accumulate answers on the computer, print them out with the word processor and bring them over as soon as possible.

Every day at six o'clock, I met my employees and asked them what kind of questions they had that day. Then I gave them detailed directions such as “the point of that question is this and should be answered this way.” The primary focus was how to reflect my policies in management, finance, personnel, technology and other fields in a systematic way.

At that time the investigation fee at Tokyo Stock Exchange was 5,000,000. I thought that charge was cheap. I did not come to that conclusion because the stock listing was accepted, but because our company's business results were investigated by a third party calmly making a kind of history of the company, segmenting the business results. As a result, many new suggestions came to our attention from a different point of view, such as “we had these management resources and why haven't we used them,” or “we thought we had a good profit from our dealings with this client but in truth, it was not as good as we thought,” or “this was a blind spot for our management,” and so on. Even things I did not realize -both good or bad- had been vindicated. This was really of benefit, both for me and CSK.

The investigation lasted about five months without a break. All of us did our best to respond.

At the beginning of the investigation, we were even required to explain even the most basic terms in our vocabulary such as “what is computer?” or “what is software?” It was the first investigation for a software company and they required all the details from the logical beginnings. This was particularly required in this case, since at CSK we were making a business out of something that had no tangible form - software. I believe they needed to know the status of the industry itself.

And stock was listed

The investigation came close to its conclusion. As a final examination, I - who held the top position of responsibility - was called to attend the Tokyo Stock Exchange. That meeting was to review my management policy.

I pleaded my belief that if CSK was not allowed to list its stock now, the Japanese information industry, and in particular the software industry would be damaged. I told the examiners that would lead to a delay in Japanese industrial development, a matter not as simple as the question “what happens to CSK if the founder ‘One-Man Okawa’ dies?”

I believed that if examiners at Tokyo Stock Exchange understood my management policy and believed that “Okawa has a real faith and concern for the stockholders,” they would accept our stock even if some questions remained.

On June 17, 1982, for the first time in the IT services industry, CSK offered its stock for listing on the Second Section of the Tokyo Stock Exchange. It was the moment when the software industry was recognized objectively in the Japanese society as the first time as a new industry in Japan.

Ten years had passed since we announced that we were going to list our stock, and 13 years and 8 months have passed since we established the company. It may seem a very short time for others but for CSK and me, the time from its establishment to this date was a long and difficult journey.

I spoke to my employees in memory of the date the stock was listed, and for the new journey for CSK, as follows.

“Today, our stock was officially registered on the second section market of the Tokyo Stock Exchange. This, our goal since the founding of the company has finally been met. Although, when we come to think of it, it has been ten years since we announced a “five year plan” in 1972 and began the effort to list our stock both internally and external to the company. There have been many complications during those times, beginning with the oil shock, the changes in standards for listing stocks, modifications of the taxation policies and so on. This ten years passed like a momentary flash. Now, I am filled with emotion, and many memories come to my mind. A wise man once said, “Compose your life with a history of peak experiences,” and now I am taking in the meaning of these words with careful attention.

The stock listing is the fruit of fourteen years of CSK's history and fifty years of my life.

Today, June 17th, will probably become known as a historical moment when the Japanese software industry was recognized by society for the first time, and as the day when the software business began a new era as an authentic industry.

Starting today CSK sets out on its second era. In other words, this is the birthday of the new CSK. Here, I declare that the June 17, 1982 as our new Founders Day. The stock listing is not the end of the journey. Today is the starting point.

As if trying to mirror our stock listing, the prophetic manifestation of the new age came stepping quietly.

Many transformations are occurring. From the standpoint of sociological structure, society is changing to a more mature society, composed largely of elderly people, a service society, with increasingly diverse needs, a high-tech society, an information society and so on. From the standpoint of industry, a fourth industrial segment - the information intensive industry - is becoming a primary force and in the manufacturing sector, the times are shifting towards manufacturing many varieties in small quantities.

In the business world, we cannot sell without attaching three “S”s - Service, Software and Sentiment. In our human lives, the times have changed to the three “C”s - in which Culture, Creativity and Community are largely valued. On the other hand from the standpoint of technology, technological revolutions - the information revolution, the revolution in electronic machinery, in fiber optics, in revolutionary new materials, in biotechnology - are steadily ever advancing. What does all transformation suggest? If I can summarize in one phrase, it suggests the curtain is finally rising on the processes of the information economy. And value now shifts from hardware to software. The era of the software is right there within our grasp.”

CHAPTER IV

CSK GROUP SEEKS UNLIMITED EXPANSION



Mt. Fuji created by computer graphics

4.1 The CSK Group Grasps The Prophetic Manifestation

Group confederation for the new “momentum of the times.”

The CSK Group I manage covers most of the information technology industry field besides other than broadcasting and satellite communications.

The Group consists of more than forty corporations. Often it is pointed out to me by people outside of the company that “CSK Group is so large that I am not certain that I know what it does” or “We can not see the whole picture of the Group very clearly.”

To explain the CSK Group, I use the metaphor of Mount Fuji for the shape of the development of the information industry.

Please picture Mount Fuji at the beginning of winter. The top of the mountain is covered with snow, with a lovely gentle slope following the top and extends through a vast mountain skirt and then blending into the landscape. It is beautiful, grand and handsome, I love that magnificent physique.

The snow-covered top is CSK Corp. Its business involves systems development, information services, and systems integration (SI), including networking, while organizing the entire group.

In the middle, many corporations of the CSK Group are situated that mainly provide information-related services for clients. There are a large number of these companies and also they deal with a variety of different businesses. That includes SI, system engineering, artificial intelligence, neuro-computer research, systems sales, system operations and maintenance services, LAN integration services, POS to internet, system management, database services, debit card among other elements of the information industry.

And the vast skirt area is consisted of individual users – for personal use. The games and software of SEGA Enterprises, Ltd. and T-ZONE, a leading computer retail chain, by ADO Electronic Industrial Co., Ltd. are the focus at this level.

In short, the CSK Group covers most of the multi-dimensional information industry. And we are prepared to respond to the needs of every one - from large corporations, mid-sized and small corporations to individuals - all efficiently and in great detail. It is a formation equipped for the upcoming global networked society and multi-media society.

There is a good reason for me to create such a group by breaking up CSK or adding new corporations to CSK. The primary reason is that I believe the current flow of the times does not require a large corporation to serve every purpose. To respond to changes rapidly, we need mobility. Downsized smaller companies that are nimble and specialized in particular fields will be the leading forces in the information economy, not the large corporations. Consistent with that trend, I would like to increase the number of companies in the CSK Group.

My paradigm is that CSK Group will be filled with the flowering of many vital ventures.

CSK Corporation represents independent lines of business

I would like to address the key companies of CSK Group at this point.

The top of Mount Fuji – CSK Corporation deals with systems development, the management and operations of computer centers, sales of a variety of software packages and computers - from large mainframes, to office computers, to workstations and personal computers - computer security systems and other products.

The primary activity is systems development. We provide systems planning, software development, programming, software products and the like by taking orders for computer operations or software development from clients. At times, we work from the client's site. Our most significant contributions are in the field of outsourcing. In the United States, even the government is active in outsourcing. We will make that field of activity even more substantial in the future.

In addition, CSK Corporation is the parent company of the CSK Group, and thus we supervise the management of the Group. In Japan, special forms of incorporation (i.e. holding company) are not approved, and so we must take on this kind of management style.

Since the establishment of CSK Corporation, we have never belonged to a subsidiary of any other corporation, such as a computer hardware company, and we have cultivated our own way as an independent systems integrator. We have had a moving and intense history. And now this independence helps us like a fair wind.

In the arena of networked or open systems, it is difficult to create systems that satisfy clients if you are tied to a specific manufacturer or a software vendor. In other words, in this field the systems integrator has relationships with many vendors and is able to

assemble the best combination of hardware and software for each client. In that sense CSK is the largest independent computer services corporation in Japan and we can fully demonstrate our strength.

And the symbol of this independent group is CSK Corporation. Its importance comes not just from the role of supervisor for managing the Group, but also from the growing need to provide the moral support for the entire Group, as the number of member corporations in the Group increases.

The forty plus corporations of the CSK Group

Many of corporations within over forty members of the CSK Group have extensive businesses including international operations. The primary company for the networking business in CSK Group is CSK Network Systems Corp. that was established in 1984. In that year many VAN (Value-Added Network) companies were established thanks to the revisions of the regulations regarding the electronic communications industry. I thought that if all of these VAN companies each created a unique network individually, the market would be flooded with proprietary networks and it would be challenging to have data communication among them.

In a network, we can create new channels by collecting businesses in different fields and we can use this approach as an aggressive management tactic. Gathering competing companies in the same field is not an effective strategy.

Thus I invited various companies in different fields to join us for the plan to create a joint standard. This plan was based on the concept that it is the end-user who will find advantage in the data communications, so we must create this plan seeing things from the end-user perspective. As a result, many companies agreed. The companies participating included the fields of banking, securities, life insurance, other insurance, machine tools, cement, construction, cosmetics, business services, distribution, advertising, publishing and others.

CSK Network Systems Corp. funded by fifty-four corporations covered all of Japan with a high-speed digital network connecting the major cities. It is an open network that allows access to other VANs and it had been developed in conjunction with international VANs by cooperating with foreign communication corporations.

I believe the open network is extremely important in the future and it is the same for VANs.

Networks are the infrastructure of the information society and require non-proprietary structures that do not depend on a specific company or business group. That allows a company to supply value-added services crossing industries and business contents. Thus CSK Network Systems Corp. - one of a few independent VANs became quite precious.

The next company I would like to mention is Bellsystem24, Inc. whose stock is currently traded publicly. They offered their stock for the over-the-counter market in December 1994. Since then they have maintained a high stock price, and in 1995, the price was 16,300 yen. Bellsystem24 is a corporation with a so-called telemarketing agency as its primary business, that is, marketing over the telephone. In the CSK Group it is in a unique field by comparison to other corporations. It is the largest company in the telemarketing industry and it has been growing rapidly. Its profitability is comparable to CSK Corp.

This business is spread across all of telephone marketing, that includes call center services for mail order businesses, or information dissemination services, market research, event promotions, telephone dispatch services for sales promotions, telephone answering services, consulting, and voice answering services. Their competence in research is highly valued and in special cases, they are actively involved in national election reports on TV and in other events.

This field is rather new in Japan and it is in the arena of new businesses. Its future is promising since the trend in marketing is shifting from mass marketing to direct marketing, and to one-to-one marketing.

In the future, Bellsystems24 aspires to become a total marketing corporation that performs at a level above the competition by including the use of new technologies, such as computers, facsimiles, mass media and satellite communications, CATV, and mobile communications, not merely the telephone. Here also they levers CSK's technology. We can say that they are one of honor students in the CSK Group in their business results.

There are many other corporations in CSK with special advanced technologies such as Business Extension Corp. that handles databases, CSK Research Institute Corp. that researches and develops entertainment and multimedia application software, ServiceWare Corporation that handles systems operation and management services, ADO Electronic Industrial Co., Ltd., that operates the consumer computer superstore chain "T-ZONE," and NextCom K.K. that resells network equipment and associated

services. The future of these companies is very promising and we are sure to make some of these companies public.

Supporting new venture corporations

The other company I would like to mention here is “CSK Venture Capital.”

The Company supports venture corporations with funds from ten different establishments such as CSK, banks, and insurance companies.

Recently even in Japan, the number of venture capital companies has been gradually increasing. Especially during these few years there has been a movement to support venture businesses, and related organizations in the Ministry of International Trade and Industry, and local public entities that are actively trying to create organizations to support venture businesses. However these supports are mainly financial and for the most part they invest in relatively developed corporations that already have a strong potential for public stock offerings. In Japan, there are still very few individual investors like the “Angels” I described previously.

Under such conditions, there is almost no support for ventures that have new technologies but lack the funds necessary for establishing a company. In my own experience, such ventures at start-up need money the most at the outset.

The primary objective of “CSK Venture Capital” is to provide financial support for ventures from their very beginnings. Such a support system could be an “incubator.” We also supply management consulting and technical support. We are trying to raise venture businesses adequately by providing the support they need when they need it.

We mainly support or invest in new businesses that relate to IT services like those in the multi-media or information communications fields. After examining their potential resilience, we invest in them from ground zero. We also have systems that allow us to provide management know-how and technological support of the corporations in the CSK Group if necessary.

We also have a powerful overseas network with the leading American venture capital firms of Patricof & Co. Ventures Inc. and Accel Partners in the U.S., the APAX Group in Europe, and Asia Pacific Ventures Inc. that has extensive experience in Japan and Asia.

I dearly hope to see the birth of many innovative venture companies just as is happening in the United States. I myself was the founder of a new business venture and endured

many arduous experiences. Because of those experiences, I can see exactly when the venture businesses need financial support, technologies or talented personnel. I believe that we are capable of contributing to the creation of new business ventures by giving careful and confident support that is based upon our own experiences.

Reaching out across the vast mountain skirt, the world of “SEGA”

The corporations in the CSK Group that have as their object businesses directed towards individual and home use include “SEGA Enterprises, Ltd.” among others.

“SEGA Enterprises, Ltd.” has become the largest corporation in the CSK Group at this time as they steadily evolve their business primarily from developing and managing location-based amusement facilities and home entertainment fields such as “SEGA Saturn” and so on.

In 1990 their stock was listed in the First Section of the Tokyo Stock Exchange market. SEGA Enterprises, Ltd. is a representative story of an international M&A by a Japanese company. The original acquisition price was a little less than 10 billion yen that returned considerably more than a trillion yen at one point.

SEGA operates amusement parks such as “GIGO” in many locations throughout Japan, with recently opened sites in Ikebukuro and Roppongi in Tokyo, as well as locations in Hiroshima. At the Hakkei Island Sea Paradise in Yokohama, SEGA Enterprises, Ltd. has large facility called “Carnival House.” They are also energetically pursuing the development of a new form of amusement theme park. They established “Gulbo” in the Asia Pacific Trade Center in Osaka, the grandly scaled “Joy Police” at Shin Yamashita in Yokohama, at Odaiba in the seaside sub-center city in Tokyo, at Takashimaya Department Store in Shinjuku, and they plan many more in the future all over Japan. These theme parks are of the type in which the audience participates and enjoys experiences using virtual reality technology. SEGA Enterprises Ltd. plans to have fifty such locations in Japan by the 21st century.

They also have enjoyed remarkable advancements in the home entertainment field. In particular, the 16 bit game machine “Genesis (Mega Drive)” has seen the huge success, that was followed by the 32 bit game machine “SEGA Saturn.” They market a variety of software programs including racing games, role-playing games, fighting games, and their future remains very promising.

They also have strong overseas business promotion. In the United States “SEGA” characters have become figures in TV animation and “Genesis” (Mega-Drive) has secured the top market share. SEGA's name has been spreading across the world. In Europe, SEGA launched the amusement facility “Metro Police” in England and they are planning to open other facilities in Spain, France, Germany and other European countries. Also in Asian countries, SEGA Enterprises Ltd. plans to conduct businesses in China, Taiwan, Malaysia, Singapore, Indonesia and so on with both hardware and software.

SEGA has initiated a cable TV subscription with access to game software, known as the “SEGA Channel” using CATV in Japan and in the United States, in an effort to prepare for the multi-media society. Also “SEGA GameWorks” was established as a joint venture with the new entertainment studio, “DreamWorks SKG” managed by producer/director Steven Spielberg. At SEGA GameWorks, new software is being developed to exploit the latest computer graphics and movies. They plan to open one hundred amusement theme parks all over the United States by the beginning of the 21st century.

In our emerging future, “beautiful, sensational, creative and fun” will be the key words and we will be entering the era of the individual. Global networks and the advancement of multi media systems will accelerate this movement. “SEGA Enterprise Ltd.” stands at the front of CSK Group as our pilot for this new era.

4.2 Grasping The “Momentum Of The Time” Towards The 21st Century

Understanding the flows and the bottom currents of this transformation

To understand the direction and potential of the future information and software industries, it is important to grasp the underlying currents or the flow of time.

The reason I am attempting to develop CSK as a group and to advance and broaden our arena of activity is in an effort to follow those underlying currents. It is important, I believe, to see clearly, with your own eyes, where the flows and the currents are moving. Our current experience is of the powerful transition from an industrial society to information society; it is the time of the big change. Societal values are changing dramatically as the result of this big change.

The following is my interpretation of these changes.

The emerging values of the information society will be completely different from those of the previous industrial society. For example, in the industrial society, hardware was valued. However in the information society, that which is considered valuable shifts to something that has no tangible form - software. Here I mean software in its broader meaning, not only software as a computer term, but instead that which includes such matters as technology, intellectual property rights, services, culture, education, aesthetics, time and timing, space and so on. Values gradually shift to those things that have no form - those things, which are intangible.

In the industrial society, various structures in politics, economics, and industry were built according to the value in those “things” that have form. Now, in the coming information society, everything will be re-structured according to the values of software. At some point in the future, regulations in themselves, including commercial rules and rules of taxation will be revised to reflect these new values.

Before that stage, the first thing that will change will be information and its distribution. In conjunction with the advancement of information networks, we will be able to access music, movies or games using our personal computer whenever we want to listen, or watch or play. In the case of software, we do not need to use the media of tapes or CDs, as the software itself can be accessible via cable or other connections.

With regards to the distribution of goods and services, we will be able to buy anything from anywhere in the world while staying at home. In the information society, we do not review a display of products. Given the shortest possible time for distribution, the manufacturer/producer and the ultimate consumer are connected directly. This process has in part already begun on the Internet.

Naturally, the next thing required is some form of currency. The research regarding electronic funds has already begun, but it is possible that in the future, currencies will shift to a digital form of cash that will be exchanged all over the world. Then inevitably the significance of current Japanese banks or city banks will be changed dramatically. It will be the same for the Stock Exchange and securities companies, life insurance and other insurance companies. Sociological rules or regulation systems will require revision as well.

On the other hand, the direction of movements in the computer field is settled: downsizing and open systems. The direction is towards open technologies, databases and other systems, and efforts to make these systems available for everyone's use.

This means we will prosper together by opening and sharing our knowledge, information, resources and connections. In other words, people who have a similar purpose will assist each other and progress together - the direction of the flow is towards coexistence and co-prosperity.

Once movement towards downsizing and open system advances naturally the work patterns and business forms will change and completely different forms will take shape. Management will consider employee's volition, dreams and vision to help them realize their full potential.

It is not clear yet whether these new methods will develop into something like virtual companies or assume a form entirely new. In either case, this change will have a dramatic impact on the older forms of industrial and business organization.

Obviously it is a time of major reforms. And for energetic individuals, it presents great opportunities. We should recognize that these are interesting and exciting times, and the opportunity to seize upon these big changes lies there equally before us all.

The era of brain and mind

Let me describe the information society from another point of view. In the information society intangible information will have value just like raw material had value in the past. Information production, supply, distribution, selection and warehousing will become an industry and people will pay for such services.

This has become possible mainly as the result of the development of computers and networks. Just as Watt's invention of the steam engine provided the primary breakthrough for the development of an industrial society, the computer and network made the information society possible. In the industrial society the manufacturer that produces material things enjoyed great success, while in the information society the industry that handles information successfully will prosper.

Now, what kind of new invention will make the information industry prosper? The clue for the answer to that question lies in answers to questions like: why were material things prized and why did the manufacturer of those products prosper in the industrial society?

The underlying premise for the products and machinery that were made in the industrial society was that those products represented the extensions or magnified versions of parts of the human anatomy, such as hands, feet, eyes or ears that made up the primary determinants of our function and performance. As humans, we rode horses instead of

using our legs and we extended our legs further by building bicycles, trains, cars, airplanes and so on. To extend our arms, we created jackhammers, forklifts and manufacturing tools. In place of our eye, there were microscopes and telescopes. To extend our ears, we created the stethoscope, hearing aids, and a microphone that could collect sounds and by creating these devices we supplied new conveniences.

In short, the industrial society is the society that expands as a result of people extending their human functions by exchanging human bodily functions with mechanical devices.

On the other hand, what then remained for the information society was the development of the brain. We are extending and expanding the functions of the brain via the computer. Further, functions that will extend and expand the processes of human reason will be researched and developed. By using computer memory and disk storage, we are able to assist and expand the capacity of our memory - an area in which we are rather weak. Also in the field of recognizing and predicting patterns, this extension will advance our capacities. At this moment there is no substitute for human emotions such as joy or exhilaration. But there will come a time when we can expand the human spirit in some ways by the application of the technologies of virtual reality.

In other words the transformation from the industrial society to the information society is the transformation from an era that seeks to fulfill physical needs to an era that seeks to fulfill the philosophical needs - the needs of the mind and the brain.

The view of “atoms” and “bits”

The future information society can be referred to as a Siberia society in consideration of the way that computer networks come to constitute the infrastructure of society. This differs from the past in the way that atoms differ from bits. The bit makes up the fundamental unit of information - the minimum unit of information - on a computer. The atom is sometimes considered the basic unit of physics.

What is the difference between atoms and bits? Let's explore this concept using the library as a metaphor.

This library can be described as depending on atomic units. This is the case due to the fact that when the library is used, one atomic unit - a person - goes to the library to borrow another atomic unit - a book. On the book shelf there is now an empty slot, and the book itself is gone. If this is repeated each week, only fifty some people will be able to read that book each year. This is the library of atomic units.

Let's move this image to the world of the bit. In that world, the contents of the book exist in a database, which is in turn on the network. Thus, people have no need to go to the library. Also the information stored in these bits are accessible from far away, and can be referenced by or copied by millions of people who have access to the same information at the same time. In short, in the world of bits there is a society in which information is jointly owned and shared on a scale and at rates of speed that is almost unbelievable.

It is same in the business world as well. The use of the Internet for commerce is increasing gradually. By using the internet we will be able to access any corporations or consumer in the world directly, in a split second and to create entirely new prospects.

For example in the past, corporations activated their business by means of atoms and they needed certain scale of time, money or personnel. Thus, it took larger scaled corporations to handle international businesses. However using bits - internet - creatively, even the corporations with just three people are capable of handling their business globally and they will be capable making a large profit.

The metaphor of atoms and bits can provide some clues when we imagine what is possible in the information society. The example I selected above came from a lecture by Dr. Nicholas Negroponte of the Massachusetts Institute of Technology.

Bring forth the tacit dimension

In the information society the relationship among producers and consumers will also change.

Looking broadly over our history, it's clear that the agricultural society was much more of a self-sufficient society, and in many ways the producers and the consumers were the same people. Then came the industrial society and the producers and the consumers were separated as a result of the technology of mass production. A one way traffic route from producer to consumer was established.

Now in the information era producers and consumers are connected via a two-way street of communication. By sharing information jointly producers and consumers communicate in two directions and produce together and provide services to each other.

For example by matching a producer's technology and know how with a consumer's needs or sensitivities, customized products designed for a single consumer can result, or additional products likely to be found appealing can be anticipated by extending these same product concepts. A new type of supply and demand relationship is possible.

The most important thing in this society is to sharpen your ability to carefully read the information available. It is not enough to read a customer's needs as part of a uniform pattern or to understand the surface requirements. It is critical to understand the information hidden behind the surface, such as the desires, sensitivities and sensations that cannot be easily picked up just by verbal communication.

Everyone has desires or motivations that are difficult or even impossible to explain. The sociologist Michael Polanyi refers to this type of information as “tacit dimension.” He explains that we can recognize ourselves only to a ten percent level. In the marketplace in the information society it will be critical to extract that “tacit dimension” and give it tangible form so that we are able to supply the most satisfying services to customers.

In the world of contemporary marketing, the driving force is the concept of being “market-driven,” that is, to build a business by focusing on needs expressed in the market. But in the information society, a more meaningful approach is the concept of “mind-driven” that focuses on individual sensitivities and hidden desires.

The changes I have described represent my ideas regarding the underlying trends of the information society as related to the management of companies. However this is only one dimension of the information society. There must be many other views as well as other changes beyond those I mention. Thus, our dreams of the future are infinite and the opportunities awaiting us are innumerable. I, myself and the CSK Group would like to reach out and use our entrepreneurial spirit to help realize these dreams.

Software for IT services are eternal

There is no final objective for software in IT services. Thus software is, so to speak, an “eternal industry.”

As long as humanity has the will to advance and develop, the level of software will eternally improve. In other words, as long as we have a desire to be happier or to improve quality or create new conveniences, at the moment new software is created, it already begins to become stale.

The world is ever changing and to respond to those changes the amount of software required will increase, since software is flexible as compared to hardware, which is more difficult to change. Also in the field of terminals or input devices, new functions have been always emerging with revolutions in technology. The OS (operating system software) is also rapidly changing with new revisions. The more the situations with

companies change - with mergers, joint ventures, partnerships or through internationalization - the more the requirement for the creation of new software.

As a matter of fact, there are many cases in which entire systems had to be exchanged for a new system because of technological advancements not only with regards to computers but also with regards to peripheral equipment, such as measuring devices, production machinery, manufacturing devices and technology.

In the world of hardware, competitors appear immediately. As a matter of principle, there is a fixed cost for hardware and that hardware remains the same wherever you choose to make your purchase. Thus, the market intensifies the pricing competition, and when you lose in that competition, you lose immediately.

However in the world of software, things are different. Software may be sold for 100 yen at one location, while with a little remodeling, it can be sold for 500 yen at another place. Also competition does not lead to price wars. This is because the “measures” used to determine the price are the company's credibility, technology ability, development ability, or the expectation of future services.

Obviously this can be said only under the assumption that the company maintains an advanced level of technology that customers want and need. Not all companies in the software industry are immortal.

Creating software requires eliciting the tacit dimension - the underlying needs and wants - for other people or for other companies - and it is a process filled with humanity. We can review the process of production or the degree of completion by ourselves. It is exactly like being an artist. It is a job exactly opposite to the work of the workman in Chaplin's “Modern Times.”

The service in the IT services industry is a matter of accumulation.

The idiosyncrasy of the services in the IT industry is that it is a business based on “accumulation.” The calculation expression for total sales volume is (unit price x amount x days x month x year = volume). The longer the work continues the volume grows and the total accumulates. In other words, as long as we supply satisfying technologies to customers, the trust from the customer grows deeper, repeat business grows and the volume of work increases.

In the sales business, in an extreme case, if the settlement of accounts occurs in March, even if only twenty units are sold through February, the sales goal of one hundred will be reached as long as they sell eighty in March. However, the sales of IT services does

not work like that. The sooner we agree on a contract, the larger the volume becomes. Profit and loss is determined over the term and the question is how much volume we can create from April 1st to March 31st next year.

What is important from the viewpoint of management is the “per person” factor. Stated more clearly, the unit is “how much for one hour for one person.” It is important to keep in mind always “how much expense is incurred for one hour” and to use workers effectively. If we lose this view and agree on a cheap contract, the loss will continue and accumulate. In the industry based on accumulation, these fears exist also.

The other characteristic of an industry based on accumulation is that the IT services industry is a knowledge industry. For example the knowledge accumulated by creating a system for one customer can be promoted to other customers in same industry. We may be able to apply the knowledge we accumulated working with another customer because the work contents are similar. Furthermore, as a result of this similarity, the time required to develop a new system is shorter and it may be possible to create the system more advanced, more detailed and of higher quality. In a knowledge industry, the more experience and the greater the accumulation of experience leads a company to become a winner.

Also it is important to make a package that includes the whole line of work that can build experience or skill that moves one up the learning curve.

CHAPTER V

MANAGER'S VISION AND PROFICIENCY



Corporate advertisement on Asahi Shinbum (newspaper) on August 14th, 1973

5.1 The Alluring Personality Is Everything

Life experience determines management policy.

I think that an executive's philosophy of management reflects his view of life itself, for it has been cultivated through the process of that life. So, at a company managed by the founding owner, its management nature is largely determined by the owner's personality, his way of thinking and his ideas. If the owner is accountancy oriented, then management methods become more precise; and if technology is his main focus, he tends to commit totally to technological development, with the result that his company's growth may be stunted. In other words, the fate of your company - whether it soars, stagnates or declines - is entirely up to the executive's way of thinking.

Where then does management policy come from? When we consider the mind-set of a manager, we cannot imagine that matters are neatly separated, with thoughts of the company on the left side of brain and thoughts of a personal nature on the right. The experience, the information that was absorbed into a human's brain is one matter. But a manager's way of thinking and acting is based on his or her philosophy of life.

How then does a philosophy of life come to be cultivated? It goes without saying it comes from a person's life experiences. After we're born, from our earliest memories we build upon our experiences, as we see, listen, think, are praised, scolded, feel hope, are moved, vexed, pleased, hate and so on. These experiences are deeply related to the creation of a life philosophy and it is this life philosophy that ultimately becomes management policy.

I was born the second son at a clothing material store for women and children - the "Okawa Shoten (store)" in Senba, Osaka in 1926. When I was a child, in the neighborhoods around Matsuya-cho, Chuo-ku, Osaka, where the Okawa store was located, there were many wholesale shops for textiles and other goods. I used to play together with other kids, the children of neighbors and shop workers who spent their days in the mountains of cloth.

While growing up in that environment, it was natural for me to come to the determination that "I will make some sort of business." When our sixth grade teacher asked us what we would like to be when we grew up, I answered immediately "a businessman."

Through listening to adult conversations each day, I learned the basics of business practices, including sales and purchases, the strict cost pricing of the textile firms or the

knowledge that “we actually will make money when we sell everything, as matter of fact.” The foundation of business is cash settlement and zero stock.

For myself, born and raised in Osaka, I came to the “Give ‘em hell!” spirit quite naturally - never lose to a competitor, never be defeated by the manufacturers, never lose to Tokyo and so on.

What makes up my approach to management and what makes up CSK can be inferred from all these experiences: the hope that grew in me from my experiences since I was a child; the hardships I have faced in my life; what I have learned; and what I aspire to become and to do, if I am to be born again.

What I have learned from my life under medical treatment

I have been frail since I was a child, absent from school often with tonsillitis. I still remember an incident in the eleventh grade, when we marched in the rain with gaiters on my feet on the Naval Memorial Day. The next day I developed a high fever and from that complication, I required an absence from school for a year.

In 1945, I graduated from Imamiya High School in Osaka, delayed one year from my classmates, and I entered the Engineering School of Waseda University. I wanted to join the Business School for my college studies. However at that time we could escape from being conscripted if we studied engineering, at that stage in World War II.

However in the emergency conditions of those times, we spent most of our school time assigned to work at firms and had little opportunity for study. At the factory where I was sent to work, we were often bombed.

On August 15th, 1945, Japan accepted the Potsdam Declaration and ended the war by accepting defeat. Then again, I did not study much, spending my time instead collecting food and taking part time jobs. I could have studied if I tried harder, I suspect. However in the relaxed atmosphere that came strangely enough amidst the chaos of devastation after the war ended, I became careless and vivacious, devoting myself to dancing, Mahjong and billiards, that were in vogue during those days.

At any rate, I eventually graduated from Waseda University in 1948. However by that time I had developed tuberculosis, perhaps as a result of the unfortunate condition of the food supply at the time. I was bundled up again in bed. Complicating the incident, while still in the hospital, I came down with appendicitis. The operation did not go well, I don't think, and I had a leaking intestine (the wounds from the operation failed to heal properly). I was forced to spend a long time under medical care.

The times were different then and tuberculosis was a very deadly illness, and as a result my intestinal troubles lasted for a very long time. I experienced hemoptysis from my upper body and the leakage of food, and even leakage of roundworms in my lower body. Friends who visited me at the hospital saw me so very skinny and the rumors spread that “Okawa may go soon.” I felt completely abandoned and I prepared myself for death. I spent my time reading books in bed.

This life under medical treatment lasted a long eight years. Finally good fortune - new medications broke through and I hung on to my life like a miracle. This medicine was streptomycin. At that time it was very expensive, but my father sold his inheritances from my grandfather, one after another, and paid for my medications.

Thanks to this medication and my father's help, my life was saved. But at that time the only thing I could think of was that I had fallen behind the others.

In spite of my frustration, there was something I gained from my illness.

In part, this was the knowledge I had gained through reading books while I was ill. I read books, many books, feverishly. Perhaps this is a part of the mystery of being human but once I realized that I could die, I dearly wanted “to make good use of my life.” I wanted to study much more.

In Japan at that time various ideologies, including Marxism, were greatly popular. In my house there were books on Marxism, the history of materialism and many Iwanami books. I read each and every one, even those beyond my capacity to understand. This experience provided a very good education for someone like me, who did not study very hard while at the University.

And through these experiences, I came to understand that the search for the “meaning of life” is the basis for understanding anything. This is very difficult to try to explain. Maybe what I have learned was a stance or an attitude which we can only understand through the experience of extreme situations, such as when we find ourselves in the face of death - perhaps the way to face life and society.

At any rate, it is certain that this long eight years of fighting with illness greatly changed my life.

Never go bankrupt

Following that time, I had very some good experiences upon which to create my management policy as well.

I had recovered from my illness thanks to a new medication, streptomycin. My older brother Hiroshi then asked me to help him in his company - in the office of a certified public accountant.

I wanted to continue my studies at the University's Business School, but I was too old for that. But I did not know what else to do. I was obliged to help my brother in the conduct of managing small and mid-sized corporations at the accounting offices.

In that business, knowledge of accounting is essential, including accounting principles, Profit and Loss Statements, bookkeeping journals and data entry and so on.

I studied from my brother's books and became as good as a CPA. My brother ordered me to attend the tax office and negotiate lower taxes. I would memorize the taxation laws in their entirety and I gave a talk well grounded on the constitution. They were often impressed with my knowledge and gave me a chance to consult with them.

For someone like myself who had always wanted to own a business at some time, obviously the mastery of accounting was a major accomplishment. But an even more important experience for me was the opportunity to see the realities of mid-sized and small-sized businesses. I experienced an unexplainable consternation. I believed that conditions then were not too different than now but small and mid-sized businesses had a very fragile financial base. It might be an exaggeration but at that time, conditions were bad enough that almost one half of those companies would go bankrupt in five years and eighty percent of them would go bankrupt in ten years.

I was shocked to realize that once a corporation went bankrupt, that event destroyed not only the owner's life but also the lives of the employees and their families.

One small factory that I was familiar with went bankrupt. The wife of the owner had to go to work, carrying her child with her. Since she could not find job quickly, she had no choice but to take a job at a construction site. She was employed cleaning, digging and carrying heavy materials at the site of a street improvement construction project, one of many frequently undertaken at that time as a relief measure for the unemployed. I can never forget the shock I felt when I saw her working at the construction site holding a child on her back in front of me.

I should never cause such a catastrophe. If I had my own company, I would never under any conditions go bankrupt. I have no right to destroy another's life, and I would feel especially guilty to shatter a young life. After that experience, this solid assurance became one of the important aspects of my management policy.

Manage business that we can have dream and vision

After that incident a friend of mine suggested that we co-manage a taxi company. I agreed to do so. At that time my inferiority complex related to being late in life compared to others was gradually consuming me and I was searching for some business that I could use to create the basis for a business in one generation without capital. This suggestion to manage a taxi company boiled my mercenary blood.

It took a while to receive a license from the Land Transportation Department but we started the business together. I was then thirty-two years old.

The reason I was interested in the taxi business was that I thought the service industry was the fastest industry in which to start a business. And taxi service businesses were making the most profit then in the entire service industry. Further, there were no impediments to enter the industry.

However as soon as I joined management, I realized the taxi industry is complicated by problems with labor unions. I spent every day negotiating in collective bargaining sessions. Some of them were influenced by Marxism and challenged me with very difficult discussions. Thanks to the reading I did while I was ill, I had read my "History of Materialism" and "Das Capital" and I did not have a bad time with the negotiations. But I always felt that "something was different." After all, I sold the taxi company after two years. The primary reason I sold the company is that I could not have a vision of this industry.

Starting at that point in my life, I believed that corporations must have a vision. The vision is the dream, the ideal form or image of the future.

As a personal dream I had images such as "I want to have this kind of family by age thirty," or I want to "become a first-class technician" or I want to "marry someone beautiful who is as beautiful as the people I see on TV." It was the same for my corporation. As long as we had a dream or a vision such as "I want to create a company so that all my employees can have this kind of life" or "I want to create a company that is able to contribute to society in a real meaningful sense," and as long as we built our efforts to achieve that dream, then we could experience some satisfaction or joy in the

accomplishment. In the taxi industry at that time I could not feel in any way any of these visions.

A few years ago, CSK Venture Capital, a CSK Group company invited Mr. L. E. Shefsky who is a lawyer and a scholar of entrepreneurship to give us a lecture. He stated quite clearly that the single most important thing for an entrepreneur who seeks to establish and manage a venture corporation is his “dream.” I agree with him completely.

He also stated that when investors make a decision regarding whether they will invest or not, they make a determination regarding the “person.” In other words, the first necessary condition for a business's success is the founder's dreams and vision, and how concretely, not abstractly, the business is visualized.

I also wanted to tackle some attractive business that allowed me to have a dream, a vision that allowed me to actualize those dreams and visions and to make use of my natural qualities - my mercenary strength.

5.2 Bringing The Establishment And The Management To Success

The five management prerequisites I envision.

I had a shocking encounter with a computer and felt a “Prophetic Manifestation.” I set my sights on the computer software business and at the age of forty-two, in October 1968, I had established the “Computer Service K.K.” that supplied a full service system for computers. The first four years were a continuous hardship. During those years I outlined five prerequisites for management of which I try to remind myself.

The followings are those five prerequisites. Unless all of these conditions are met, I believe the corporation will not grow.

The top management must:

- (1) personally, have a concrete philosophy of life and management.
- (2) have a long-term plan based on a concrete management vision.
- (3) advocate the corporate policy and the management paradigm that employees can rely upon spiritually.
- (4) promote corporate strategies and the management paradigm as isms and permeate the workplace and promoted to all employees

(5) grasp the flow of time and changes.

These prerequisites may provide some sort of reference for people who would like to become an entrepreneur. From my experience, the fundamentals of management share something in common throughout different corporations and different industries.

I would like to add some simple explanations for these five management requisites.

Need to have a philosophy of life and a philosophy of management

A philosophy of management is identical to a philosophy of life. I also believe in a “single generation business” approach, avoiding management by a family. In that sense the management of the CSK Group represents my life philosophy itself. I am putting all of myself into this effort. If I could try to explain these beliefs and thoughts in a single phrase, it would be “to find happiness for all of us together.” To make that possible, I would like to create a company that will never succumb to bankruptcy and to create the top ranked company in a solid industry where all employees can work with confidence.

There are four “C”s in the measure of corporate growth. Those are Condition, Capital, Capacity and Character.

Condition refers to the owner manager's will regarding which industry and business to pursue. Capital reflects the owner manager's credit, the level of funding the owner manager can raise. Capacity refers to the caliber of the owner manager's productivity, and Character is the owner manager's vision and the philosophy.

These four Cs are the “metrics” for measuring a company's growth. Each one depends on how an owner manager think and acts. If you are joining a company, it is critical to examine the owner manager's proficiencies and aptitudes that are the reflection of a life philosophy. The owner manager is required to have concrete life philosophy.

Have a long-term plan based on a vision

For an owner manager to have vision means the ability to indicate direction for his or her employees. With the owner manager clearly stating a dream and a vision, pointing out the direction, as in “let's go this way and become happy all of us together,” the employees’ spirit can unite.

Especially in the information industry where people make up the core of the business, I might even go so far as to say that if one is not able to do this, he or she is not qualified to be an owner manager. In addition, company executives should show the way, as in “Let's go that way and become happy all together.” By showing them the way, the employees can all come together.

I have heard it said that we need a theory and philosophy of management to succeed, but I think the vision must come first. Based on a vision, we create plans and strategies. Stated in a more extreme way, theory or philosophy will follow the vision.

At first, paint the vision. Then follow the direction indicated by that vision, and the company will begin to take on some sort of form, until the base of the theory and philosophy is born.

All companies that succeed in growing have both a mid-term and long-term vision. Based on those visions, a five-year plan will be created, followed by the development of a three year plan and ultimately annual business plans are set. Then strategies and tactics are created for linking the ideal shape to tangible forms. If management lacks vision, there will be no plan or strategy.

Let's assume there are five hundred employees. Each one of those five hundred has different backgrounds and value systems. If all five hundred move in disparate directions, it would be like the “workers scattered on the Tower of Babel,” and it will be very hard for the company to function. It is important to set out a force like a magnet pulling the corporation together in an all out effort as a single team by inspiring the employees with challenges like “Let's get our stock listed on the stock exchange,” “Let's make a trillion yen” or “Let's become the infrastructure for passengers moving from the industrial society to the information society, and make a contribution to society.”

I myself had three visions for CSK. The first was “to make a company that lived above the border line” (in this case the borderline was for our stock to be listed, and by doing so, to gain an objective valuation from society). The second was “to build a company that was the best of its kind in Japan, or in fact the best in the world” (and by doing so, create the basis for eternal prosperity). And the third was “to establish this industry as a pioneer of information operation industry. Also to establish the position of the information operation technician and improve that status in society.” At the basis of these visions, there is my management philosophy – “Create a company we can be proud of and become happy, all of us together.”

The first tangible goal I set was to list our stock. By succeeding at that effort, we wanted to establish confidence not only in ourselves internally, but also within society objectively.

Make the corporate policy and the management paradigm

I raise the followings as the corporate policy and management paradigm of CSK Corp.

Corporate policy

“Service is the single most important matter for our company”

Management paradigm

- 1 A management that up to the challenge of change
- 2 A management that carries a social mission
- 3 A management in which personal goals and corporate goals meet

I also identify the meaning of the word “service” to clarify our company strategy.

The Spirit of Service

- * To supply technologies that satisfy our customers
- * To provide technologies that are of high quality and meet our customers special needs
- * To work accurately, swiftly and effectively
- * To always keep in mind the customer's profit and provide advice when appropriate

It goes without saying that company strategy and the management paradigm are a written statement of basic intent of the managing company. For CSK Corp., our most important managing concept is that the customer is pre-eminent and our first priority. When we think of where the money comes from, the importance of our customers is obvious and this is the fundamental policy that never should change.

We must provide genuine service to customers to have a continuing business. That means that we must add an additional value - heart - to our regular services and technological assistance.

If so, where is the heart? It begins by assuming customer demands and pleasing the customer. The second is to advice and consult with customers regarding what might be beneficial to their business.

This service does not imply free work. The service is intended to unite our hearts with the technological services and to assist our customers in gain meaningful advantages. The written statement outline this concept is the CSK's corporate policy indicating that "service is the single most prominent concern for our company."

I also believe these company strategies and management paradigms need to be written this kind of easy to understand contemporary language making it easily understood by everyone.

Turn the corporate policy and the management paradigm into isms and allow them to permeate the organization

No matter how remarkable and how well written the company strategies, management paradigms or the description of service spirit are, unless they are practiced they are nothing more than the enumeration of characters.

What is important is that the owner manager himself or herself exercise these beliefs and allow them to promote them as isms within the organization. If such statements of belief are collected inside the company, selected, and then ignored and put away - if this is the approach, the statements lose their meaning. By exercising them and exposing them widely, these statements become alive for the first time.

For this to succeed, the system for communicating and distributing those concepts widely and deeply through the company would be of great consequence. It was at the first of the year ceremony in 1986 that I raised the topic of the long term vision "by 2001, one trillion in gross sales by the CSK Group." Since then I have been repeating this phrase to my employees to the point they hear it in their sleep.

Right now if you ask anyone at the CSK Group what is the vision guiding the company, they will respond "one trillion" even though they may not understand the background or reason behind this vision. Communications systems make up the arteries of an organization moving information from head to toe. These systems then lead us to practical considerations regarding how we can reach that goal or how to make appropriate assignments.

Grasp the flow of time

I do not believe that I need to explain much on this subject.

The times change in two different ways, incremental changes and the accumulation of these changes - which make up the momentous change. I call this momentous change

“the flow of time.” Unless we grasp this flow of time accurately and manage our company in a way that responds to these changes, the company will not grow.

Once there were two electronic manufacturers, A and B, that had completely different levels of technology. At first, B was far superior to A technically. A was a type of subcontractor for public service corporations for the government for a long time. The managers of company A were challenged to escape that position - the position of subcontractor - and tried to get into the computer industry. Later, A came to surpass B.

One reason that A came to surpass B was that they made a tremendous effort to improve. The other reason is that A read the flow of the times faithfully and put their efforts in that direction. On the other hand B did not recognize the rapid development of the computer industry and as soon as the results of the computer division moved into the red, they closed that division.

B didn't have the insight to see how powerful the computer would be in the future and in the emerging information society. Later, B re-instituted its computer division, but once the owner-manager fails to grasp the flow of the times, the company falls behind and the flow passes them by.

To compare with the time when I first put forward that phrase “the flow of time” as one of five critical management policies, the speed of the flow of time now is much faster. Responding to those changes will certainly effect the management of companies and the importance of the owner manager's foresight will increase.

5.3 “People” Are The Resource Of The Services Industry

The title of the first edition of our company newspaper “Hiryu” was “Our only assets are our people”

The first edition of the newsletter of Computer Service K.K. (CSK Corporation's predecessor) was published on the January 1, 1974. In 1972 the company made its first profit, in 1973 we established a five year plan with the goal of listing our stock and began our periodical employment and we were just welcoming 186 new employees.

In that first edition my opinions at the start of the New Year were printed. I put emphasis on the idea that “management faces the challenge of change.” These were the times of recession resulting from the oil shock. So I introduced my remarks with

the statement that “recession gives us the greatest opportunity to strengthen the constitution of our corporation.” The slogan for the year 1974 was “Fight with real swords.” I explained that “fighting in earnest does not mean fighting with bamboo or wooden swords. Fighting in earnest is done with real swords, and it is either kill or be killed.”

Points of my talks over some twenty years are found in the “A Collection of the Okawa Doctrines.” These phrases are fundamental scenarios each based in the background of those particular times.

The first edition of the “Okawa Doctrines” focuses on people. “It is my ideology that people are our company’s only asset. A trusting relationship among people is the basis for management. I must become an engaging manager and energize a personal attachment to our management vision as much as I possibly can.”

The essence of business is that “People are everything.” That is my management policy.

I have always offered these phrases as my management policy - the essence of business is that “People are everything” and, in particular in the software industry “People are the asset.”

In the manufacturing business where material things form the basis for competition, instruments, facilities, machinery, robots and many things other than people create value. After products manufactured using those materials and technology are sold, what is left following the deduction of expenses from the amount of sales becomes the profit. However in the software industry, people are the asset. In this industry the sales amount is a figure that accumulates the value that was made by human technology that is amplified by their intelligence, enthusiasm and dedication. After deducting expenses from that sales amount, that is the profit.

If the company reaches some unfortunate dissolution, the value of the remaining assets is almost zero. We will be accumulating “intangible assets” such as people, packaged-software, know-how, intellectual property rights and so on, as “assets people create.” One thing is clear, the fact that people are everything. What is most important is to create an environment where we can promote people and give them direction.

The Three “With”s

In the Collection of Doctrines from the company news paper “Hiryu” that have been accumulated over a long period of time, there are very many repetitive mentions of the refrain “People are our only asset.” I also appeal to the importance of communication and of putting our hearts together to try not to be like “the workers scattered on the Tower of Babel.” Often I ask for agreement on company strategies and management paradigms that consist my soul - Okawa's soul. On the third issue of “Hiryu” (May '74), I have published a phrase similar to the one I state even now, “When the company strategies and the management paradigms become your own, your mission as an employee will be achieved in a meaningful way for the first time. Make the information your own and develop creativity from that starting point. That is intelligence.”

Management is achieving an environment in which all the employees embrace the vision of the owner and in which that dream is actualized by the efforts of every employee. To embrace the owner's vision means to encourage action and get results. To achieve these results, communication is critical and the three “with”s will be required. Just giving employees orders or commands will not result in performance and will fail to win them over.

Three “with”s means the three forms of “together-ness.” The first is to talk with everyone at the same level, employees and the owners together. The second is to be aware of the owner's way of thinking or the shared hardship of all employees together. And the third is to communicate with each other and act together to generate business results.

As a tool to help put our minds together, there is the common language of the “Okawa Doctrine.” But we also thought we needed a company song to use to develop a language that could be common among people who differ in age and value systems.

The “CSK Company Song,” the Second Company Song and the “Tokyo Rhapsody”

At the first executive training camp, a three day session held in '76, all the executives present worked together to compose the words of the “CSK’s Company Song.” We asked Mr. Hachidai Nakamura to handle the composition and the arrangement, and the Duke Aces to perform the song. At the Ninth Annual Business Plan Presentation Ceremony in the fall of that year, we announced the song. It was such a spectacular creation we felt no need to change it even to this day.

CSK Company Song

The enthusiastic troop, CSK
A firm pledge to grit and technology
A challenge to change with our sleeves rolled up and our hands dirty
The pioneer of the Comp-Utopia
The collection of professionals, CSK
The service spirit we are proud of
Moving towards becoming the pioneer of the information society
Our eager mission compassion

We cultivate people at CSK
Into the flow of time and into the harmony among people
Our belief and avid spirit weaves into
Our philosophy to create our system
CSK CSK CSK

To keep up with the changing times we started wanting a Jazzy rhythm and so we added new version. At parties my favorite “Tokyo Rhapsody” was getting old and so we made the “CSK Frivolous Chorus.”

At the time when our stock was listed on the Second Section of the Tokyo Stock Exchange, we delivered the song “We are No. 1.” A CSK employee made words for song and Mr. Yohei Shibata edited it, Mr. Shingo Kobayashi did the composition and the arrangement and, a music group called “Tranzam” performed the song.

In 1994 we asked Mr. Nariaki Saegusa to compose our “Second Company Song.” Ms. Yoko Agi wrote and Ms. Harumi Miyako sang the song “It Is That Time.”

With the recession over, and the after effects of the bubble economy resolved, it is the time for the big change. And at the CSK it is the time for the big change - ten of the companies in our Group are going to list their stock. We would like to emphasize that it is the time to display our real potential. The song has a soulful rhythm, cheerful harmony and the sentiments of the Japanese people. We did not use our company name and I think the song matches this sophisticated time well.

The Second Company Song

Now, it's the time to take a step, in this shining season
With you hand in hand
Towards a bright future, boldly

Now is the time to sing, when one starts singing
Everyone will join in song together
The genesis of sweet harmony, naturally

That time was good
When you feel so
You look back to the past
The tears should be for tomorrow
It is the sweat of our heart
Then your tears will be pure

The love flourishes and bears fruit
For the dream seeker, admiration is the milestone
It's the time to whisper, with your own words
About the distant dream
Some day the dream comes true if you strive

It's the time to remember, the beautiful sunset
Take it in and heave a sigh
The heart was trembling, a good pure time it was

Then recklessly
Living the life
Live for the day when you can look back at those reckless days
The smile is the sun
that will wrap you in warm surroundings
Even after that the smile still shines

The dream seems far away but someday we'll reach it
For the dream seeker, the enchantment is everything

Fly away free, like a wind, like a bird

Now is the time.

On November 25th '96, many promoters and others held “A Celebration of Isao Okawa's Seventy Years” at the New Takanawa Prince Hotel. They originally planned this event on my birthday (May 19th) however unfortunately I was hospitalized with poor health then, and they adjusted the day.

I danced a Japanese traditional dance with the background of the music “It is that time.” I myself, CSK Corp. and the CSK Group are realizing that we are at the peak of our golden time.

5.4 Practicing The “Win-Win” Philosophy

“Win-win” all together both spiritually and materialistically

The CSK is managed in its core according to my life view, my life philosophy. I believe in that a business should not be inherited by a blood related descendant, and also I always emphasize the idea “a win-win philosophy.” I think working for someone else's company and simply receiving a salary is the most miserable thing, in fact. Even if you work for a company for a full thirty years, the company gives you just a little retiring allowance. The company may go bankrupt or if you are not on good terms with your boss, you have no chance in your life.

To be happy, practically speaking, we need to be satisfied both spiritually and materialistically. If I could, I would like to bring the company to the point that an employee can say “once I enter CSK, I will be happy because it is managed by his life philosophy.” To make that come true, I am trying the following. Spiritually, everyone has the desire for self-actualization. At CSK, the principle is to “let everyone carry out anything they would like to do.” If one would like to develop challenges inside the company, they can become an intra-preneur. And if they prefer to leave the company, they can become an entrepreneur, and we will support in any way possible.

At the same time CSK is trying to put in place a system that benefits our employees materialistically. We are trying to build a system that has as its aims employee self-evaluation through a personal accounting system. Naturally an objective and fair personnel review is a prerequisite but we would like to put the individual's incentives as the first priority.

From the time I established CSK I have been trying to shift the accounting system from a joint stock corporation system in the industrial society to a new system in the information society. I believe that we should shift from an accounting system that make much of material assets to an “accounting system that make much of human resources” and is more appropriate for the information society. I would also like to put in place an information capital principle or human resources capital principle. We have been contemplating a salary system that evaluates intelligence. I do not know if it is going to be a partnership or an intelligence union but we are making our best efforts to find the most appropriate method.

I am repeating myself again but this also comes from my life philosophy and management philosophy.

Establishing a New Investment Corporation in the British Caymans

One of the material returns to employees is the compensation of capital gains at the time of opening stock. In CSK, we have a management theory that “management seeks to join personal goals and company goals,” and when our stock was listed on the Second Section of the Tokyo Stock Exchange in 1982, we could make the company grow in a way compatible with making our employee's personal assets grow.

This was made possible by the Employee Stock Ownership Plan allotting employees stock profits and dividends. However according to current regulations, employees from corporations within the CSK Group can hold the parent company's stock but employees of the parent company cannot hold stocks of corporations in the group. After researching the capital gains method for employees that are allowed in the current system of capitalism, we created a new corporation and made it possible for employees to hold closed corporate stock as a practical matter.

At first, we established a new corporation “CSK Share Holders Holding Co.” in British Cayman Islands. As they wish, the employees at CSK can invest within the limit that is set according to their status in the company. The capital of 14 hundred millions - that is to invested between September through November in '96 - will be paid to the new corporation in December.

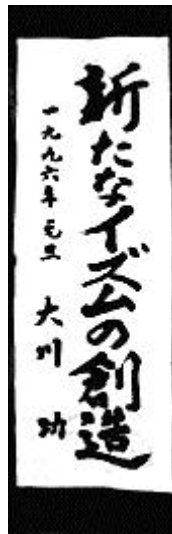
The investment will be made for CSK Network Systems Corp., Business Extension Corp., ServiceWare Corp., Japan Card Center Kaisha, CSI Co. Ltd., NextCom K.K., and others totaling approximately ten corporations. All of them are corporations in the

CSK Group, its stock are closed corporate stock and are anticipated to have capital gains.

Around the year 2000 we are planning to open those stocks and I believe the capital gains at the time when all of these are open will be more than 20 billion yen, which we will allot to the employees. This is one way of us to act on our philosophy of a “management that seeks to join personal goals and company goals.”

CHAPTER VI

WELCOMING THE ENTREPRENEUR



“My New Year’s Calligraphy⁴”

The Creation of New “Isms.”

On New Year’s Day, 1996 Isao Okawa

⁴ In Japan, it is customary to draw calligraphy for the New Year where often describes a resolution for the New Year.

A Challenge Issued To Isao Okawa (explanation)

Even though I recently celebrated my 70th birthday, my venturesome spirits have not lost their fire, but rather are growing ever stronger. As a forward to Chapter 6, “Welcoming the Entrepreneur,” I would like to give young, aspiring entrepreneurs and intra-preneurs an opportunity to hurl a challenge at me, Isao Okawa. All means of self-expression are open to you - tapes, videos, animation, or anything else - all are acceptable. However, please keep in mind that I am a busy person, and for that reason, your submissions will be better appreciated if they are made as condensed as possible.

Start with “Premises” Rather Than “Conditions”

I believe that entrepreneurs are “created,” not “born.” Therefore, everyone who has been given life in this world has the potential to become an entrepreneur.

The following goes without saying, however:

- (1) **Sex is not an issue, and challenges from anyone are accepted.**
- (2) **There is no age limit. However, since I am 70 years old, it is difficult to be a partner for a long term of 10 or 20 years. For this reason,** the appropriate ages are considered to be between 15 and 35 years old.
- (3) Health cannot be an absolute condition; however, I, myself, had to be hospitalized for eight years after graduating from college, and experienced how difficult it was to start late. There are situations where one’s physical strength may be a factor. Therefore, **the healthier, the better.**

Conditions and Requirements Desired for “Entrepreneurs”

The advanced information society constitutes the third industrial revolution. Since a big change is occurring now, it is time for a big chance. This truly is felt overseas, for instance in the United States, China, and Korea, much more so than in Japan. As a result:

- (1) **Personal computer and English skills are essential.**
I study English conversation for approximately 10 hours per week. Some may say, “At that old age, it is no use...” but I am continuing my studies obstinately.
- (2) **It is desirable to have living experiences in a foreign country by various methods, such as studying abroad, to acquire English conversational skills**

as well as to develop cultural sensitivity, to become exposed to other social mores, and to appreciate human diversity.

It does not matter where you go, whether to the United States, Korea, China, or any other country. Following high school graduation, one becomes stronger by having an experience living in a foreign country. Most of all, this experience provides an opportunity to contemplate Japanese customs, manners, and cultures in addition to making us bold.

And the following must not be forgotten:

(3) **“Being Brave” is Different from “Being Energetic”**

Having a drink with someone is simply a matter of “being energetic” and it is an action undertaken in a group. However, “being brave” is an action done alone, requiring a conscious will capable of “overcoming one’s own sense of self preservation.” In short,

(4) **A dream is made by wanting “ a certain wish to come true.” However, in order for a dream to be feasible as the basis for a business, the dream needs to take material form, and to evolve into a vision.**

A powerful desire to achieve this vision elicits the persistence, and the strength of will needed to make your dream a reality, no matter the circumstances.

Things To Be Remembered Before Issuing a Challenge

In July 1994, in order to fulfill a mission of “serving as a bridge between the industrial society and an advanced information society,” We established “CSK Venture Capital” within the CSK Group. CSK Venture Capital provides a thorough service covering two of the information communication related fields (software, hardware, systems integration services, and multimedia), and the new business fields (the environment, distribution systems, elderly issues, creature comforts and affluent lifestyles).

The following are absolute conditions that CSK Venture Capital looks for in CSK’s partners:

(1) **Be Prepared to Bear Risks Yourself**

A Harvard Business article once featured the following observation: “What is common among those individuals who receive investment funds from successful American venture capital firms is that these individuals remain devoted to their dreams with passion even though their annual income may decrease drastically. It requires a strong

will to keep facing challenges even though his/her annual income of six million yen may be reduced in half.” It is not good if you run away while making a venture capitalist take risks. You should be willing to take risks yourself as well.

(2) **Take Loyalty Seriously**

There is a world of difference between a million yen of support given prior to the start of an establishment and a million yen given immediately before the stock opens on the over-the-counter market. There have been cases in which the recipient of the one million yen given prior to the business’s establishment forgot that kindness, and made financial allocations to a third party entirely on their own decision at the preparation stage for a stock public offering. For me, such an individual is forever an outcast. In order for a business to be successful, there must be some gratitude towards the customers, employees and related companies. True communications cannot be established if such gratitude has been forgotten.

The above two points are what CSK Venture Capital considers as absolute conditions for its partner. Also, above is the explanation for how the challenge should be issued. In short, **“you need to convince me to be your partner through the strength of your desire to accomplish your dream no matter what happens.”** Regardless of the field of business, I would welcome a wide range of business partner proposals from entrepreneurs at this time.

A Challenge Issued to Isao Okawa (Form)

Address: CSK Corp.
Attention: Yocho (Prophetic Manifestation)
31st Floor, ARK Mori Building, 1-12-32 Akasaka, Minato-ku
Tokyo 107, Japan

E-mail: isao@csk.co.jp

Entrepreneur Candidate:

Contact: _____

Name: _____ (age)

6.2 The Day Of The Large Corporation Has Passed

Hopes Ride High for New Ventures in the Era of the Multi-Media Society

From every direction I may be reproached if I say, “the era of the large corporation has come to an end.” However these same people would understand if I rephrase my statement saying “there is almost no advantage in being large in size in information related corporations.” From now on, the success of a corporation is determined by how fast the owner of the corporation can make a decision and take an action. For this reason, more opportunities will be given to small and medium sized companies.

In addition, as the global network progresses, the strength of the corporation has almost nothing to do with its physical size. We are in an era when venture corporations, which are capable of moving faster, can make the most of their characteristics.

The internet was opened to the general public in 1994, and with it has come a boom in multi-media. A characteristic of multi-media is to provide a greater impact by adding communication media, such as static images, animation, graphics, and voices, to the information transfer whose main elements are characters and numbers, then, integrating these data as a whole by digitizing them in their entirety. In addition, it is a momentous event that interactive (bi-directional) systems capable of mediating a conversation have become real.

When a multiplex medium is used, not only it is possible to shop by talking to a TV set, but it is also possible to exchange data with your own company from your own home or your business trip destination. In addition, services are provided which support your intellectual activities in accordance with your own free imagination and ideas.

The steam locomotive, a symbol of the industrial revolution, was the basis for the development of the railway system in Europe and the United States in the 19th Century. At the same time, it is also possible to view the locomotive as the instrument that produced a new regulation called the “timetable.” It was the automobile that freed us from the regulations of the timetable. Combined with the synergetic effects coming from the organization of the highway networks, the popularization of automobiles in the 20th Century has expanded our freedom. As a result, our society has become a motorized society. Further progress has been made in aviation technologies which allow human beings to move to far locations in extremely short periods of time; needless to say, that development has changed dramatically not just the character of sightseeing, but also the character of business.

Fundamentally, human beings respect freedom, and they have dreams and hopes of expanding their freedom. The freedom that allows human beings to converse, play, and work with “anyone,” “anywhere,” and at “anytime” using all available media in accordance with their particular needs, based on the consent of both engaged parties - such freedom will create values, ethics, and world views in accordance to each particular situation.

The information revolution makes it possible to “obtain any information one desires” and at the same time to “share your unique knowledge and abilities with technologies within an extremely short period of time.” For this to happen, needless to say, the need for open information systems must be widely and thoroughly appreciated. For that, efforts to bring the awareness of Japanese people closer to that of the world standard are required.

Television sets were first popularized in the 1950’s. However, even now in Japan, channel selections for Japanese TV’s are limited. To make matters worse, the only selection method given to viewers is to select programs among the stereotyped, fixed programs. If channel selection were to have more variations, viewers could search their choice of programs from a wide variety of channels according to their various needs, then, file the programs so that they could watch them when they wished to do so.

If the above approach could be realized, concepts and cost management used to create TV commercials would change from the very bottom. Because the number of people allocated per channel would become smaller, TV commercials could not survive unless they became more specialized, became more capable of satisfying artificial senses, and primarily, they would have to cost less while maintaining advertising effects. Fine touches and thorough service at a personal level are required. When such a situation occurs, it will naturally become difficult for a larger corporation to enjoy a monopoly.

The more intense the competition becomes, the wider the alternative selection range would become, and the cheaper the price of information. In fact, even now, almost no programs are produced inside a TV station due to the reduction in program creation costs, or due to the fact that the ability to be creative, necessary for program production, requires a spontaneity and speed that isn’t possible in a TV station; I would assume both of these are reasons for the lack of studio production. Creation of TV programs are, therefore, based on the work of production companies outside of the TV station.

In the multi-media era, the company that will excel is the venture corporation with knowledge and technologies in a certain specialized field, whose abilities are

unchallenged by any other corporations in that particular field. To say it in the extreme, if there exists a limber brain and a personal computer, it is possible to challenge a large corporation by building a network.

Creative Abilities are the Key

However, there are areas, which can be challenged only by a large corporation with large capital resources. These areas include the infrastructure which provides the foundation for bi-directional technologies; in short, these companies are the constructors of the network itself, and its operations. This requires an enormous amount of time and expense to construct the network, as well as the large amounts of money and manpower needed for its maintenance.

For example, six billion kilometers of fiber optics have already been laid in the United States, and it will continue to be added to on an annual basis. In Japan, however, the length of the fiber optics is only around 100 million kilometers; in the future, the pace at which more fiber is added is expected to be faster. When it comes to the areas mentioned above, there is nothing anyone can do for a while about the fact that the main players in these fields are either the government or large corporations.

However, there are not many territories or areas in which larger corporations must take the lead. Actually, it is the “software” and “contents” which are at the center of the requirements in the multi-media business. Therefore, we are facing a situation which allows the related services companies to compete on the same ground (the same ground where the larger corporations are competing) as long as they have the ability to be creative, regardless of the size of their corporation.

Small corporations with excellent computer graphics technologies are drawing a lot of attention in the United States. Another good example is that the entire world is interested in Japanese animation. In Korea, the animation projects are supported by the government and are considered an item on the national agenda.

The fact that “creative ability also determines the market trend” has been proven by the example of the computer games industry. Nintendo was able to keep any other company from approaching its position at the early stages of competition as a result of the market penetration of Nintendo hardware products. Nintendo is now beginning to lose its former semi-monopoly status in the market because other companies created software with excellence and creativity and continued to introduce these products to the market.

Such phenomena have always occurred in history of the computer. For example, personal computers were widely distributed initially thanks to the initial efforts of Apple Corporation and also as the result of the tremendous popularity of “BusiCalc” (a spreadsheet software program from BusiCorp.) On the other hand, IBM-PC’s have become a world standard in the personal computer field because IBM Corporation had bundled DOS from Microsoft Corporation. In those cases, it was software which determined the key to success.

In other words, “the caliber of software determines the preference for hardware.” And it is definitely the case that the strong competitors in the software industry are not large corporations, but rather venture corporations which are young and full of positive energy.

In the multi-media society, success in business is determined by creative capacity. And today, this creative capacity must accompany a more refined and delicate thoughtfulness as well as a range of services, which are better than ever. These capabilities are not realized as a function of company size or large capital resources.

6.3 My Mission And The Mission Of The New Business Conference

Assuming the Position of NBC Chairman

In May 1996, I took the position of Chairman of the New Business Conference (acronym: NBC) which is a venture corporation support group.

In the past, I have been helping the Conference as one of the vice-chairmen. I did not mean to accept the position of chairman, which is a position of great responsibility. I am not good at being a leader of group activities, unless they are corporation activities, and also I did not believe that I was capable of taking on the duties of Chairman. However my desire to raise a future generation of entrepreneurs is quite strong. Or perhaps I should say that I believe that I must promote new entrepreneurs and that this mission is more important than any personal concern, and that this consideration overcame any hesitancy on my part. Also assisted by the requests from people around me, I decided to accept the position, reflecting on the fact that “this is a chance given to me through an act of fate. I should take it if I could return my gratitude to the society out of respect for the kindness which has been given to me.”

In an outpouring of “entrepreneur spirit” and with the primary objective of preparing

the business environment for “new business ventures,” the New Business Conference was established in 1985. Although it has experienced only 10 years of history, the number of corporate members has already exceeded 500.

The New Business Conference is often compared to employers’ associations, such as the Federation of Economic Organizations, the Japan Federation of Employers’ Association, and Japan Committee for Economic Development. The difference from the conventional economic association is that in the case of New Business Conference, many of the members are pioneers of new businesses, thus, it is a gathering place for many successful entrepreneurs who have started his/her own business. There is a strong sense that the Conference is a group of entrepreneurs rather than a group of business owners.

Our activities are diverse. With regards to activities related to policy proposals, deregulation and tax system improvement have been suggested. In addition, the promotion of new business has been proposed to organizations, which make economic policies and labor policies. NBC itself scouts and educates entrepreneurs for new businesses, and it also offers business management information, and so on.

Furthermore, NBC provides many workshops and learning opportunities as well as social meetings to enhance interaction among business owners and among related organizations. It also conducts surveys and research activities concerning new businesses.

Where NBC applies most of its efforts is in supporting activities for new businesses and scouting and raising new entrepreneurs. Every fall, NBC holds the “New Business Messe” which targets venture personnel for new businesses. In this New Business Messe, in addition to lectures and panel discussions, there are many exhibits where various types of products and services are displayed by new business corporations from all over Japan.

In 1995, 107 corporations participated in the event, and we received many more visitors than expected. In 1996, various types of events were held both on December 10 and 11 at Pacifico Yokohama, including among these events a lecture by Mr. Bill Gates.

An award to search and honor new entrepreneurs called the “New Business Award” has been continued without a break since its establishment in 1990, and the number of applications for the award has been increasing each year. The total number of recipients of various awards has reached 150, including the “Grand-Prix,” widely held to be the most respected and honored entrepreneurial award.

Furthermore, in November 1995, the Japan New Business Conference Federation (acronym: JNB) was started.

JNB organizes new business related associations located in 12 regions in Japan from Hokkaido to Kyushu. The objective of these associations is to promote new businesses through mutual cooperation. At this point, over 3,400 corporations have become JNB members. In the future, we would like to implement more active proposals and support activities, as well as motivational campaigns to stimulate members to appreciate their special, local characteristics and unique qualities while at the same time drawing on the merits of being a federation.

Starting from 1995, co-hosted by Small Business Association and the non-profit organization Venture Enterprises Center, JNB has been participating in “Venture Plaza Japan.” This event has been held on an almost monthly basis all over Japan this year.

Its purpose is to present opportunities for venture corporations or entrepreneurs-to-be to meet investors. In March of this year, 30 companies selected from many applicants explained their nature of business and other issues to 104 investment companies, such as venture capitalists and security companies. At the same time, CPAs and consultants gave business management consultation.

In addition to all the above, NBC continues many activities to support new business and venture corporations and to educate entrepreneurs.

I, myself, have been supporting entrepreneurs through CSK Venture Capital from the CSK Group, or using my own funds. I hope to expand the scale of this support in the future and devote myself to the promotion of new businesses.

In that sense, although the stages may be different, there is but one end. What I can do may not amount to much, but my desire continues to grow ever stronger to contribute in helping to create a new environment which encourages venture corporations to come forward one after another.

My dream to create a system to have a quadrillion-yen asset used for supporting entrepreneurship.

From the viewpoint of the environment for venture support, there is a vast gap between Japan and the United States. According to *Nikkei Business Weekly*, for example, the number of venture capital companies is approximately 1,000 in the United States, while the number is only 150 in Japan. The total amount of investment is approximately 4

trillion 500 billion yen in the United States, while only 850 billion yen in Japan. In short, the total investment in Japan is less than one-fifth of that of the United States.

Furthermore, the numbers mentioned above indicate the amount for venture capital only. Beyond those sources, it is said that there are approximately two million individual investors, sometimes referred to as “angels” in the United States, wealthy individuals who take a new business venture “under their wing,” supporting the venture with capital and other resources as needed. Their annual investment amount is estimated to be approximately three trillion yen. On the other hand, although no numbers can be given because there are no accurate statistics available, it is no doubt that the numbers of individual investors and the investment amounts are extremely small in Japan by comparison to those in the United States.

I would like to examine why these individual investors cannot thrive in Japan.

I believe that much is to be blamed on the current system of taxation. The current Japanese taxation system is design to prevent the creation of “over night millionaires.” That can be said of the high income tax, of an inheritance tax that consumes the estate’s entire capital certainly within three, and often in fact within two generations and of every other tax system as well.

It is may be not the most attractive way to describe the situation, however I believe that the “overnight millionaire” provides indeed the mother’s milk for the venture capital business. In other words, only these overnight millionaires, specifically as a result of their sudden, abundant wealth, are able to invest in high-risk new business ventures. Investment cannot be made with hard, steadily earned money simply because of the high risk. In Japan, following this same logic, overnight millionaires used to be the source of support for various businesses, cultural projects, artists, and politicians.

In the United States these kinds of investors have been promoting entrepreneurs and supporting economic growth consistently over time. On the other hand, in Japan, the war time loan system that was created during World War II has been carried forward. That system encouraged citizens to save money, and then collected small amounts from a large number of individual savings accounts, building an accumulated fund to be loaned to a particular industry. Even though it is possible to view the high economic growth rate of the post war era as an achievement resulting from this loan system, such a system is an extremely exceptional case by comparison with global standards and it should prove difficult to continue indefinitely. My analysis is that this approach continues to survive even now because Japanese leaders are unable to let go of their past

successful experiences with this system.

The environment surrounding industries has been changing significantly. It has been over 50 years since World War II ended; now, wealth is omnipresent, concepts of morals and values have changed, and the taxation system, contractual terms, and societal structures cannot keep up with these changes. Having said that, my personal opinion is that it is time to go back with a clean slate and consider a new structure. For such a drastic reform, socio-environmental change is needed as a trigger. Thus, such reforms cannot be accomplished over night. However, nothing will be resolved by simply waiting. As long as the review is considered preliminary, I think that it is possible to do it now.

One of the immediate changes I believe should be implemented as soon as possible is preferential treatment for investments. In the United States, the tax system allows an individual to claim certain contributions as a deduction in their gross income. Furthermore, when an investment does not go well and a capital loss occurs, those losses are deducted from gross taxable income.

On the other hand, there is very little preferential treatment for investments in the current Japanese tax system. Concerning capital losses, the only allowance permitted is a deduction of the loss as an offset to any capital gains, but only against those gains occurring in the same year.

Furthermore in Japan, when an investment business union is formed, membership is limited to only 49 people, and these participants must bear unlimited liability. There is a vast difference between this Japanese system and the American system which allows an unlimited number of individuals to participate, and in which participants bear limited liability in accordance with their investment amount.

From my personal experience, of the large number of investments I make only a small number of the entrepreneurs I have supported achieve success. Because it is so rare an experience, when an entrepreneur does triumph in the attainment of their success, the joy and the feeling of fulfillment is enormous. It should also be recognized that millions and even billions of yen are required to raise one entrepreneur. And therefore the amount of capital required to support many entrepreneurs is immense.

In today's Japan, only the personal financial assets, which are secured in a bank or in a post office savings account, can provide the fundamental assets.

Fortunately, it is said that the individual financial assets in Japan exceeds one quadrillion yen. If the taxation system reformed to make this individual assets to be

easy to access for investments for venture businesses, the support environment for venture business would change significantly.

The New Business Conference has already made proposals and requests for changes in the taxation system such as new taxation arrangements for individual investors - so called “angels.”

Providing More Opportunities for People to Meet

It is another important role for the New Business Conference to provide more opportunities for established venture corporations and people who intend to start their business in the immediate future to meet with venture capitalists and institutional investors.

I personally experienced first-hand how difficult it is for an entrepreneur to secure capital for business operations. Although sources of venture capital have been increasing lately, it takes a lot of time and energy to find and visit many venture capitalists and give a presentation of a business plan.

On the other hand, in many cases, the venture capital firm cannot meet with representatives of new business ventures which could “satisfy their level of requirements” even though the venture capital side is prepared to make investments aggressively. In order to make this process more efficient by eliminating any mismatches, it is important to provide more chances for both sides to meet.

The first “Venture Plaza Japan” held this spring was based on that objective. Its theme was “a gathering place for venture corporations and investors to meet one another.” It was held at Tokyo Prince Hotel in March 1996.

Besides the “matching corner” where venture corporations made presentations on their business plans to investors, there were “enlightenment corners” where lectures and panel discussions were given, the “advice corner” where management consultations were given, and the “help wanted information corner” for venture corporations seeking new employees. Although reservations were required to attend the event, a large number of people visited and the event was very animated.

Having an opportunity to sense that passion in person, once again I felt strongly that there was a great need and a strong desire for such “a gathering place.” I plan to increase these opportunities in the future.

In addition, I would like to further enhance the relationship with the United States, a country skilled in new venture development, as well as other Asian countries.

The New Business Conference already has relationships with several US entrepreneurial support groups, but the target for these kinds of activities needs to be expanded.

At the same time, I wish to cooperate with Japanese corporations and Japanese individuals who are supporting venture activities overseas, and learn from them the methods and know-how required to promote new ventures so that this knowledge can be used for future support activities.

Japan Has Many Entrepreneurial Resources

I believe that Japan has rich human resources who can be independent as entrepreneurs and who will be successful. And as far as potential is concerned, I think everyone has that. I also believe that our human resources are in no way inferior to that of the United States.

This fact is well demonstrated by the example of young business owners who have started their own enterprises and have already achieved success. I, myself, have many interactions with young business owners. A talented gathering is the phrase that comes to mind.

Let me list some of these as their names come to my mind: President & CEO Masayoshi Son of Soft Bank Corp.; President Kazuhiko Nishi of ASCII Corp.; and CEO Yasuyuki Nambu of Pasona Group. They are almost like soldiers of fortune in the days of chivalry. In addition: Founder, President & CEO Keiichiro Takahara of Uni Charm Corp.; Chairman Tsutomu Shida of Shidax Corp.; President Hiroshi Yanai of Pia Corp.; President & CEO Hideo Ohkubo of Forval Corp.; Founder, President & Chairman Muneaki Masuda of Culture Convenience Club Co., Ltd.; and President Yoshito Hori of Globis Corp. Each of these individuals is very impressive people who are filled with fresh sensibilities.

Furthermore, there are many female entrepreneurs with an excellent business sense such as: CEO Yuri Konno of Dial Service Co., Ltd.; President Reiko Okutani of The R Co., Ltd.; President Toshiko Shinoki of Tokyo Catering Co., Ltd.; and President Mitsuko Yanai of Yamaichi Kosan Co., Ltd.

The theory that Japan has rich human resources can be proven as well by those

recipients and the applicants for the New Business Award sponsored by the New Business Conference. Various entrepreneurs in many fields are each individually demonstrating excellence in their field. In particular, of late, the number of people who are recommended as candidates for the Grand-Prix has been increasing. In 1996, this number reached 130, the highest record to date.

An increase in the number of applicants is also seen at the "Venture Plaza Japan." Due to the time and location constraints at the first event, it was necessary to limit the number of venture corporations, which made presentations to venture capitalists and institutional investors to a total of 30. However, the number of corporations that applied was 268, approximately nine times higher than the limit. I understand that the administrative office struggled to select the companies to present.

In addition to the above, it seems that a movement has started slowly among college students to start his/her own company and strive to become an entrepreneur. The movement is not rooted in the recent tough employment conditions; rather, it is said that the instances are increasing in which students try to challenge themselves, seeking self-actualization with powerful wills. This is an auspicious sign and very promising.

On the other hand, a movement to create internal corporate ventures has been active among established corporations. There are already a large number of corporations, which have created financial and organizational systems to recruit intrapreneurs and to support and promote internal corporate ventures. It would be wonderful if entrepreneurs and intrapreneurs who have been hidden in corporations were awakened and initiated new venture activities.

Starting with Mr. Bill Gates, young entrepreneurs are in the limelight in the United States. I am certain that there are people in Japan who are as ingenious as those in the United States, and I know that this is how it should be.

In order to discover and promote these people, activities performed by New Business Conference will increase in their importance in the future.

As I have said repeatedly, it is not an over-statement to say that the emergence of venture corporations is the key to opening a new century for Japan. I will put all of my efforts and try my hardest to do everything I can to contribute to the creation of such an environment.

6.4 Let's Create New "Isms"

CSK has begun its new start.

For the start of 1996, as a guideline for the future of the CSK Group, I have proposed the slogan the "Creation of New 'Isms'." In simple terms, this means that based on what is of value in the new era, we must establish as "isms," by reforming systems involving the overall management of the business, including accounting and human resources, and creating a system which sufficiently rewards those who have applied their best and made a contribution.

Behind this concept is my desire to have all of my employees understand well the big changes happening in the society and industry, and to make this opportunity their big chance. I want them to face these various changes with great determination, as if our company was opening its doors again for a second time.

In the beginning of the year, I addressed my employees as follows:

"As you may be aware already, we are in the middle of the big change. CSK must deal with this change as a whole and at the same time we must change ourselves. However, it may be difficult to face the challenge of this big change by only having a consciousness of the need to change.

I want you to regard the old CSK as finished. I would like you to be possessed of the spirit to create a new corporation called CSK. Fortunately, as 'legacies' received from the former CSK, the new CSK has many technologies and reservoirs of know-how acquired by allocating plentiful manpower and making early investments. All of them are at a quality level, which is second to none. Building upon these 'legacies,' let us create a new CSK. In other words, this will be the second establishment of CSK. Expanding our business into the Silicon Valley in the United States is one part of this effort to create our new beginning..."

Without unlimited vigor, big changes cannot be handled even by the CSK Group with a sales volume of 700 billion yen. This big change cannot be turned to a big chance unless fundamental changes in the demands of the market are well examined, existing fields are more deeply excavated, and new businesses including the peripheral fields of existing businesses or totally new fields are advanced.

For that, one must never be stagnated in old ways of thinking. Hardware, such as personal computers, will be more highly functional and cheaper. Network infrastructure will expand further. It will be necessary to produce new additional

values, which have not existed in the past by using, combining, and harmonizing the above means effectively. Naturally speaking, software and contents with brand new ideas and viewpoints will be sought after.

An acquaintance of mine who had heard my slogan has whispered to me:

“Mr. Okawa, this is a disclosure of CSK’s new venture, isn’t it?”

I thought he was right on point. That was exactly what it was. With a new and ambitious spirit, the CSK Group as whole is going to lead a frontal attack on this big chance, meaning that CSK, which started as a venture corporation, returns to its roots to face a new challenge with a reborn spirit of the venture.

I am proud to say that there is no other company, which has this much technology, know-how, and premium manpower in so many different areas of the information industry as CSK. At least, CSK is at the top ranks within Japan, without question.

I want to create a new era for CSK by using these existing operational resources more effectively, because I believe that it will lead the Japanese IT/IS industry to grow strong enough to compete in the world. For that, a new venture spirit is necessary, and thus, we should create a new “ism.”

There are many fields and territories to which we should direct our attention. Networks, software, contents are among of them. In addition, we can also work on systems integration to connect and harmonize all of these above, with the new approaches to outsourcing among other changes. In order for all of these things to be actualized, a bundling which standardizes these services is also required. Furthermore, graphics, image technologies, and a higher sensitivity and capacity for design are essential for making things more interesting and pleasant to the eye. Needless to say, audio and new sensory elements, including tactile sensations, should be added as needed.

There is a great need for new infrastructure, such as satellites and radio, to transform the above into a business. Additionally, digital money and cards as a means for closing the transaction may become in demand, and there may be a request to develop new methods to substitute for such means. The future challenges we are facing are enormously large, and there is no limit to our dreams.

With a venture spirit regarding all available possibilities and embracing the challenge of everything new, I am convinced that the CSK Group will be the first to lead the Japanese information industry.

Toward the creation of new “isms”

The CSK Group is a reflection of my viewpoint toward life; thus, it is a reflection of my management view. I wish for all employees to be happy both in material aspects as well as in spiritual aspects.

I believe that “a business lasts only for one generation,” and I think it is impossible to carry on my philosophy of life and management, even if I had a son and he should become my successor. Even between parent and child, people are completely different and individual. Furthermore, we are trying to establish a system that rewards employees when an individual performs creative work or obtains a meaningful patent, or when an individual produces a significant result for the company. I think it is possible to do so only as long as CSK remains as people’s company, a company which places high value on its employees.

Under the corporate tax system in industrial societies, it is difficult to accommodate these new approaches to employee compensation. Therefore, I have created the slogan of “Creation of New ‘Isms’,” to establish a new system fundamentally altered and made suitable for a new era.

At the beginning of the Showa era, those who worked for a company were referred to as “salary men,” and they were, in a way, an elite. In particular, those who worked for the former *zaibatsu* corporations - a financial clique - were well treated in terms of their working conditions, and they could have impressive homes when considering the conditions of those times. However, when the era of high economic growth arrived after the defeat in World War II, the numbers employed at the salary men level of corporations increased significantly, and being a salary man eventually became synonymous with having an ordinary occupation. With the help of an improved life style for the entire Japanese population, the treatment of salary men reached a balance.

And there is nothing wrong with this change. Rather, when reflecting on this era of large volume production and consumption, it can be said these changes in employment were a natural development. In order to produce a small variety of product types efficiently in mass volumes, average skills and the ability to cooperate were emphasized rather than the unique or extraordinary talent; and as a result of that, conditions of employment were kept at a balance.

However, this framework becomes an obstacle as we move into a new era. The most apparent example of these phenomena can be seen in the system of rewards - the

conditions of employment; those who demonstrated special abilities and contributed greatly to the company were rewarded according to the exact same set of standards as held for those who did not.

There are some individuals, exchange dealers for example, who enjoy better compensation based on his/her performance; however, such cases are rare. Although there are certain ranges, most salary men receive compensation determined by standards very similar to one another, standards that have little to do with the degree to which an employee makes a contribution to a company.

For example, it is almost never the case that a person who made a profit of one billion yen enjoys a salary 100 times higher than the person who has realized a profit of 10 million yen.

Within the current system, no one would be motivated to undertake significant reforms of the conventional ways and methods of doing business, or to take up the challenge of a totally new initiative with energy. It is actually quite natural to avoid taking action and taking on risks if one can receive an average compensation just as long as one performs similar tasks at a moderate level of performance. I believe that for that individual who feels the desire to take on a challenge with passion, it is critically important that we provide some material incentives and some motivational support to accompany the spiritual satisfaction, the joy of responsibility, and the thrill of achievement that come as natural rewards for such endeavor.

One of the key items in the “Creation of New ‘Isms’” is to structure an environment which is capable of providing sufficient rewards for results, for actual achievements and contributions. I hope to remove ourselves from traditional concepts, which I call “the Japanese corporate ‘isms’,” and to create a new ‘ism,’ to reconstruct a framework based on the concepts of that new ‘ism.’

CSK has already initiated various types of process reforms regarding employment issues and management approaches based on the concepts explained above. In addition to the intrapreneurial system, other in-house entrepreneurial environment organizations, such as the in-house venture capital system, are also promoted. We are attempting to establish a new CSK which provides a corporate environment in which each employee can demonstrate and put to use his/her entrepreneurship, which maintains a system capable of providing sufficient rewards in accordance with performance results and levels of contribution, and which also provides a corporate culture that collectively acknowledges and rewards such achievement.

Build a fire in the heart

I would like to appeal to both those who have already started and working hard on their venture corporations as well as those who are thinking about starting their own business to consider the “Creation of New ‘Isms’.” The future is not an era for large corporations; rather it will be an era for venture corporations focused on specialization rather than generalization, with a full reservoir of creative ability, and abundant driving energy. Such corporations will lead the Japanese industry. Looking back over the last 50 years since the end of the World War II, there is no time when entrepreneurs are as much in demand as they are today.

However, unfortunately, it is a fact of life that Japan has an environment where it is difficult for venture corporations to be born. However, it does no good to whine about it.

Every corporation, no matter what kind, when first started was a venture corporation. When I established CSK, I felt frustrated and irritated because even though CSK was a corporation seeking to help solve problems, some unkind individuals referred to CSK as “a people renting company.” However, that business style helped in the development of the Japanese information industry, and conquered inconvenience and impossible barriers. Compared to those days, the environment surrounding venture corporations today is much improved. The number of venture capitalists has increased tremendously, and we are in an era which grants us the possibility to start a company with one brain and one personal computer. Compared to the era when Sony, Matsushita, and Honda Motors started from a form of small town factories, it is no doubt that the environment for the venture corporation has improved so greatly, there can be no comparison with those old days.

It is a fact of life that the environment in Japan is not as favorable as that in the United States. However, I sincerely wish that new venture corporations come forward one after another, just like “mushrooms after a rain” in a favorable way, without being discouraged by some environmental barriers. Or, should I say that I want entrepreneurs to stand up and begin taking action. Otherwise, there will be no true re-ignition of the Japanese economy.

I also hope that those new age entrepreneurs create a new venture-ism, which does not yet exist in Japan.

The foundations for the development of entrepreneurs are the way people think and

societal systems, which appropriately reward those who demonstrate his/her special abilities and recognize those who face the challenge of new fields.

William Arthur Ward has once said about education the following:

“Ordinary teachers simply talk. Good teachers explain. Better teachers demonstrate. But the great teachers build a fire in their students’ hearts.”

If the term “teachers” was substituted with the term “business owners,” without any further change, Ward’s statement could become a statement regarding the essence of management. Great business owners build a fire in the hearts of the people around them.

I hope that those who have already started a business and those who want to start a business build a fire in the hearts of people around them by challenging their dreams.

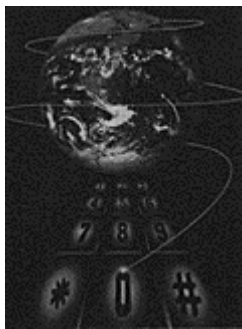
When a society is in a time of upheaval, the sources of power and authority that existed in the past becomes utterly debased, and are removed to make room for individuals who have new knowledge and technologies. Therefore such a time presents a good opportunity for these new entrepreneurs to take on meaningful challenges.

By creating a new venture-ism through that challenge, I hope that he or she continues to set large glowing fires in the hearts of entrepreneurs to follow.

If I could summarize my viewpoints toward life and business management, that would be “to become happy all together.” These viewpoints have been cultivated inside of me through my background and experiences. I was also affected by books I read during my hospitalization, such as “Yuibutsu Shikan” (translates to *The Materialistic History*). Also challenging the contradictions that I find existing in society has become my second nature.

CHAPTER VII

FROM JAPAN TO ASIA AND THE REST OF THE WORLD



“Planet earth has become smaller and the world has become united.”

7.1 Global Attention To The Current Trends Of The IT/IS Industry

Intranet and wireless communication technology

People may have thought that it is one of the world's seven mysteries that no publications written by Isao Okawa have been sold in public before. It may sound more credible if I describe the reason for this as the fact that I am superstitious. However, the actual reason was that my motto is "manage a business that faces the challenges posed by constant change." Because this has been the focus of my business, I was afraid that by the time my writing became available on the market, its contents could be already dated.

Recently, I went on a business trip for two weeks to the United States. The purposes of the business trip were to report our business ambitions - both my own and CSK·SEGA Group's - and to announce the recovery of my health to leaders in the IT/IS industry. Needless to say, I had another purpose in mind, and that was to directly experience corporate trends specifically related to the information industry.

Over there, I was able to understand the themes, which were of most interest to the US entrepreneurs, particularly the young business owners. These were technology trends in the IT/IS industry, and they were absolutely not related to the business climate, tax systems, or interest rate trends. The presidential election was not even a topic. Business owners in all fields as well as business owners in the information industry were all burning with interest in the technical trends in the IT/IS industry, and they were holding their breath in their fervor.

To summarize the results in brief, the promising growth areas for technical trends in the information communication industry consist exclusively of the fields of intranet developments and wireless technologies. The intranet has already been seen as a highly promising area in Japan as well, but the wireless industry has not been yet been noticed. Since information becomes old quickly, by the time my writing is published as a book, I believe that many people will be interested in the wireless technologies and so I am not certain how much information value this report will carry.

In the United States, already cordless technologies have been attracting people's attention primarily. There is as well a trend for corporations, organizations, and the government to focus on their core technologies, and outsource other technologies. In particular, the US government, as well as state level governments, are in the process of

actively promoting the privatization and outsourcing operations across a wide range of activities.

One such example is the outsourcing of the service operations of jails. Criminals with minor offenses are released from jail by putting ankle bracelets, which cannot be removed by the criminals. By applying information communication technology, it is possible to determine where each individual is located with pinpoint accuracy. Thus, individuals can be sufficiently controlled by a non-contact cordless system. We are in an era of holonic systems - flexible and robust systems composed of multiple independent and self-adapting parts, which maintain symbiotic relationships with the whole. In this kind of era we are able to provide a carefully considered services.

Currently, 32 state governments authorize the outsourcing of jails, and 18 states use private corporations for outsourcing, and they use cordless systems as a method of control.

Besides these above mentioned examples, privatization and outsourcing are seen in other government processes, such as in finding stolen cars, collecting unpaid taxes and utilities, overdue fee collection services and so forth. I strongly felt that as IT technology has changed society, it has become a trigger for a smaller government, and eventually, for reform.

Realization of the American Dream

I would like people to know that there is a “guy” who does not let his spirit down but whose passion increases despite the fact that he turned 70 years old. In the beginning of the year 1996, as a principle for the CSK Group, I presented the slogan the “Creation of New ‘Isms’.” Some pointed out that this was an announcement of a new venture or a new venture spirit. Actually, there are two aims for this slogan: one is to create a system appropriate to the “era of individual” and the other is to make an investment in the American dream.

Unfortunately, deregulation initiatives to support the expansion of business opportunities have not progressed much beyond the initial fanfare in Japan. Japan currently has difficulties with the system of taxation and also faces a challenge in building a foundation for supporting new ventures; thus Japan is running behind the United States.

I will continue to support entrepreneurs as Chairman of the New Business Conference

and CSK, and as an individual. I must say that it is the United States where the creativity and the de facto standards for the current information communication field exist. Ten years from now, I hope that they will shift to Japan and to other countries in Asia. But for now, the United States will be the standard bearer for a time.

Even now, there is a stronger interest focused on the information industry in the United States than Japan. That is the reason why I have been increasing my time in the United States despite my 70 years, so that I can interact with American entrepreneurs and seek out brilliant ventures. I have the feeling that I will have opportunities up to the year 2005. As long as capitalism will remain strong, by that time, I hope to bring to Japan world class corporations in which I have invested building on my ability to procure vast capital resources.

Right now, I have set as my goal to study English conversation more than 10 hours per week, and I am making myself work hard at it. Except for the age difference, if I had English conversation skills, I could have been able to build a business at a much higher level than the businesses developed by US-based young business owners. At some point down the road, I may be able to go to Japan for a “business trip” while having my working base in the United States.

Let me put aside my main subject for a while. A baseball player, Mr. Hideo Nomo, who has been demonstrating his excellent pitching skills for the Los Angeles Dodgers, is a friend of mine. I passed along to him my encouragement before he went to the United States. I thought he was an entrepreneur and a risk taker when I heard him saying that he wanted to make his dream come true, and that if he dared to play baseball at all he wanted to test himself in the United States. In the sense of “beauty, sensitivity, creativity, and fun,” in view of helping people to have a good time, I greatly appreciate cultural entrepreneurs in the fields of sports, music, art, and images who seek to achieve the American dream.

7.2 Networking In The “Era Of The Individual”

The software era has freed Okawa from being considered a “braggart”

Computers have shifted their center from hardware to software, and they have added communications and broadcasting, and by doing so, they have set a clear direction for a giant new phase of industrialization. I am receiving the benefits from this change.

Since long ago, no matter where I was, I stated repeatedly to those I met, regardless who he or she was, that “the mainstream is going to be software not hardware,” or “the focus of value will change from the tangible to intangible,” or “an era of beauty, sensitivity, creativity, and fun is coming.” However, I did not receive many agreeable responses from my colleagues who were business owners.

Rather, the remarks I received were of such a nature as “Mr. Okawa’s company, CSK, has a reputation as a company which presents ‘difficulties’ in any attempt to understand what the company is trying to do.” At the same time, I also received other warm and friendly remarks such as “Isao Okawa is just like a grown up kid, like one of the youngsters from the neighborhood,” and “he speaks freely and bluntly, but nobody can dislike him. He is a unique and interesting character.”

However, in recent times, at last, people have begun to say to me, “Mr. Okawa, it is indeed the era of software.”

Because the information and software industries which CSK has been following do not have the kind of substance by comparison to what a manufacturing industry has, it has been difficult to be understood. However, finally, people have come to recognized my point. Consequently, my reputation has suddenly changed from a “braggart” to a “prophet.”

The information industry itself changes the economy

Computer software technologies change the dynamics of the economy itself. Software technologies have changed the nature of product development and distribution, and the flow of business logistics from an economy, which was based merely on anticipated demand to an economy, focused on actual consumer demand. The introduction of POS systems made it possible to realize a zero inventory for manufactured products that had been based on theoretical predictions of demand. It also changed the pricing systems since it was no longer required to assume the risk and losses of unsold products.

Production methods can be improved by analyzing hit products and buying patterns. Since the production system, which had shifted from the mass production of small varieties to the small production of large varieties, then, shifted again to “small production with moderate volumes,” the result was a decrease in the amount of losses from unsold product inventory.

Initially, with regards to computers, many people insisted that these technologies were not appropriate for supporting management. Some even made a statement, which illustrated a clear lack of any understanding of computers, that the computer was, after all, a large version of a Japanese abacus. However, corporations which were equipped with POS systems and up-graded their technology were able to use the capabilities of the system to “calculate many small issues accurately and precisely,” grasping real-time sales trends, and increasing the accuracy of sales forecasts. As a result, they affected distribution. Starting with the Seven-Eleven Corporation, TOSTEM Corporation, Yamazaki Baking Co., Ltd., and Yamato Transport Co., Ltd., corporations which made the most use of their POS systems reinforced their leading positions in their industries.

The difference between sales forecasts and actual quantities sold has become closer to zero, and the amount of inventory has also become much closer to zero. From this it can be also seen that these systems help to protect and use precious raw materials more effectively.

Possibilities of new businesses in the era of the individual

It was absolutely impossible to articulate the “wants” and “needs” that exist at the bottom of each individual’s heart using old sales methods that simply exhibit product samples to customers. However, within the IT/IS industry, even “tacit knowledge” which we humans were not capable of expressing previously can be elicited from within ourselves. For example using images created by computers, CAD, and audio, vehicles and houses can be shown in a three-dimensional virtual reality. By illustrating these images, subliminal needs, such as “I think a more stream-line design is desirable” or “how about a darker color?” can be brought out from people allowing them to describe these needs in detail even though they themselves were unaware of them before. Then, with simulations, a product can be constructed through a series of modifications until it becomes the “the preferred product customized in detail for a particular individual.”

In short, the point is to find solutions without suppressing the subliminal desires existing originally in each individual’s subconscious. In such an environment, it is natural for values to change significantly. The expression of individual’s needs in the information society will produce a new industry to serve more emotional needs.

The post war era was an era for the nation and corporations. In the industrialized society, corporations and individuals are the driving force, and furthermore, in the

information society, individuals seize the primary leadership roles. It is “the era of the individual,” and in reality, lifestyles are richer in the developed countries and people can enjoy various luxuries. In addition, women form an increasingly significant force in the work place. Therefore, services related to individuals, such as housekeeping services, have already become a business opportunity.

In the United States, two-thirds of entrepreneurs are women. This number represents the fact that personal service industries are expanding the territories for new businesses. It also corresponds to the development of corporations. Not only in the IT/IS industry, but many corporations in general keep a tight hold on specialized technologies which can serve as their core business and which are constantly improved. However, many create outsourcing arrangements for operations not part of their core businesses.

The information industry has completely altered existing economic theory, principle, and practice, and has even established entirely new value systems. The focus is shifting from the tangible to intangible, from demand forecasts to actual customer demand, from characters to visual images, from the era of the nation to the era of the corporation, from the era of the corporation and the individual to the era of the individual, from focus to dispersion, and from dispersion to hyper-dispersion. Thus, our existing economics are no longer useful. And existing economic values, such as land, labor, capital, and assets must now also be reconsidered. The creation of the new “isms” is already awaited in every regard.

7.3 Building Up The Dream Of ASIDAQ

Incentives from the IT/IS industry

By now, everyone has come to feel the “prophetic manifestation,” or signs for the growth of the IT/IS industry. However, it is not yet too late. Look at the example in the United States; a group of new venture businesses pushed the Dow Jones Industrial Averages up to a level exceeding 6,400 - which had been only at the 1,500 level in 1986 - and it was the growth of companies related to the IT/IS industry that made this contribution.

Currently, the IT/IS industry in the United States has exceeded the size of the automotive industry and of agriculture, and it has become an industry which accounts for over 10% of GNP. Up until now, the only other industry, which exceeded 10% of

GNP, was the munitions industry during the War. If the three-stage theory is applied, it can be seen that economic growth of the United States, including the increase in stock prices, has been based upon the IT/IS industry, and the driving force in the IT/IS industry are venture businesses where entrepreneurship has proven itself.

Actually, the truth of this assertion can be demonstrated by the number of entrepreneurs and the probability of new ventures becoming over-the-counter public corporations. In the United States, 775,000 entrepreneurs start venture corporations each year. However, only 0.1% of them can be opened to the public on the NASDAQ. However, in Silicon Valley, the probability jumps to 1% - 10 times higher than the norm.

If it can be assumed that the Silicon Valley is equivalent to the IT/IS industry, it can then be said that the IT/IS industry supports the growth of American economy. Entrepreneurs gathered in Silicon Valley are very passionate toward their businesses, and they are creating future technologies day and night. In the background of this situation, there are management methods for securing superb employees by providing strong incentives, such as stock options. Such strong incentives motivate employees to work not only 12 hours a day, but to continue to work for over 15 or 16 hours - the source of power energizing the IT/IS industry.

Education and support for entrepreneurs in Asia

Both Panasonic and Sony were factories in small towns when they started. I also started my company when I was 42 years old, with 10 employees. Currently, there are 14,000 employees in the Group. In May 1996, I became the Chairman of New Business Conference (NBC). It is my life work to raise and support entrepreneurs so that I can return the favors and the kindness given to me. I am serious enough to donate my own personal assets to this end if needed.

Currently, I am in the middle of examining a method to merge "CSK Venture Capital" established five years ago and my personal investment corporation "OS Capital" which manages assets directly as well as oversees management operations. I also hope to have plenty of intra-preneurs and entrepreneurs inside the CSK Group. For promoting ventures, three changes in particular are important - deregulation, reform of the tax system, and reform of the educational system, and I would like to give my support to these movements.

Furthermore, I would like to develop a strategy, which is not limited in range to Japan alone, but that allows me to draw together other Asian countries as colleagues. I sense

a strong possibility that the breakthrough point for this project is Okinawa. Please consider this as an egoistic “big boast” at this point, but I will work hard to make this happen.

In order to realize the above objective, one project to be considered would be to establish on Okinawa a base for outsourcing certain processes handled by the central government, moving there the headquarters for the information processing works managed by both the central government as well as local self-governing bodies. In the United States, privatization and outsourcing are spreading out into a wide range of fields. As one of the largest system integrators, EDS Corporation (with 1995 revenues of 12.4 billion dollars and 95,000 employees) performs information processing for the federal government, and provides as well outsourcing and systems integration services.

Regarding the development of Okinawa, although in the past I considered building an airport hub and gambling facilities, such as casinos, and strengthening tourism, I think that the best way to develop the island is to promote the development of the IT/IS industry there. Why not construct a giant computer intelligence building, then, and place orders with private organizations for information processing tasks to perform for the central government and local self-governing bodies?

In addition, I would like to see communications to be free of charge in the Okinawa district. If sending and receiving information are to be free of charge within the island, not to mention with other regions of Japan, and if a group of information and communication related corporations and government agencies from each Asian country would locate in Okinawa, the result would be the establishment of Okinawa as the center for Asian information. I would hope that satellite broadcasting communications systems are available for use by that time.

Once this infrastructure described above is prepared and organized, I have a dream to establish an Asian version of NASDAQ, or what I might refer to, possibly, as “ASIDAQ.” Since the United States is trying to cooperate with Asian countries without including Japan as a partner, some are concerned about possible financial losses for Japan. However, if “ASIDAQ” were to be established, this financial loss could be prevented. Both Japanese investors as well as investors from other Asian nations are accustomed to the type of atmosphere Okinawa maintains, and I believe they would feel at ease in the area.

In reality, other Asian nations long for financial and technical aid from Japan. Considering the future, Japan should cooperate with other Asian countries, including

Singapore, India, China/Hong Kong and so on.

My desire to contribute to world peace

Although I am already 70 years old, my passion continues without diminishing in strength. Please forgive me for emphasizing how “active” I am, but allow me as this book comes to its conclusion to mention my desire to contribute to world peace. For me, the trigger was the GII Junior Summit; I have come to believe very strongly that the world will undoubtedly change if children seek for understanding from each other, facing such matters as the wars that adults initiate, bringing to these exchanges all the sincerity and the pure faith that humanity holds in its primal nature. When these children from all over the world grow up - in particular the children of Asia - I believe that the world will never again be the same.

If we consider planet earth as one global village, information communication technologies, represented by the internet, will affect the fundamental aspects of our humanity, and thus these technologies cannot fail to fundamentally change society. If information falls like a shower from satellite communications systems, people will be curious and at least interested enough to find out “what is happening in the neighborhood.” If what they see are happy faces, and if they feel a great gap between them and their neighbors, it will be natural for them to feel incomplete. No one, not even a dictator, can stop this shower of information coming from the sky. Globalization will further accelerate the information revolution. I hope that at the same time, globalization will accelerate the chance for world peace as well.

POSTSCRIPT:

This current era of the big change is also the era of the big chance.

Based on my own experience, I want to shout out for all to hear “new entrepreneurs, step forward!” Also, I want to declare in a loud voice, “the time is now!”

I was born near the end of the Taisho era in the wholesaler district of the harbor in Osaka. As a second son of a merchant, I grew up helping in my family business, a wholesaler of western textiles and playing with neighborhood children in an area occupied by nothing but wholesalers and their businesses. Therefore, it was natural for me to think, even as a child, that when I grew to be older, I had to start some kind of business.

What’s more, I had a strong sense for being independent and competitive, an attitude represented by the “Give-em hell spirit” of a child from the Naniwa district, something I attribute to the area where I was raised.

In the latter half of my high school days in Osaka, World War II began. At that point, I became a student of the Electric Department of Engineering School at Waseda University - I did not think I could survive if I were to be called as a soldier since my health was poor. However, most of the time in the school I was forced to work as a laborer under the air attacks, and I studied very little. The war came to an end, and I graduated. However, immediately following graduation, I suffered from a serious case of pulmonary tuberculosis, a condition which put me in bed for eight years. I have to say that I lost most of my youth because of that illness; however, thanks to a new medicine, I experienced an extraordinary recovery from tuberculosis. For me, it was as if a miracle had happened.

My one elder brother, Hiroshi had obtained a recently approved CPA certificate at that time and opened an office in Osaka. After my illness was cured, I started to work for him. At his office, I had a fateful encounter with a Punch Card System (PCS) made by IBM Japan Corporation. That was when I sensed the prophetic manifestation of information era, and that was when my entrepreneurial blood started to boil.

I was 42 when I started a new company called CSK Corp. whose business was to provide computer software services. During the first four years, my company continued to run at a deficit. However, I did not choose the easy way out, such as becoming a subsidiary for a larger manufacturer. I continued to pay close attention to

the trends in society, and devoted myself to my company with a private, maniacal fervor. I could not think that I was wrong, and to prove it, I was able to bring myself to my current position.

The great wave of the information society has arrived with a strength not even comparable to that when I started my own company. How can we come to some deeper understanding of this prophetic manifestation? How is our society going to change? What is going to happen across the world? Now is exactly the time to propose creative new ideas and to start a new business.

The recent IT/IS industry trends are the issues upon which the entire world is focusing. In order to improve and energize the position of Japan in the world, I look for young entrepreneurs to take aggressive action. For that, what I think is most important is to sense the signs of the coming information century, and to promote new businesses. With such hopes and desires, I wrote this book. I hope to receive honest comments and advice from my readers.

In closing, I would like to take this opportunity to express my deepest appreciation for the enormous help given to me by: Mr. Taichi Sakaiya who recommended me to write this book; Mr. Kazuo Noda who is the esteemed president of Tama University; and all the people at the Publication Department of Toyo Keizai Shinpo Corporation.

November 25, 1996

Isao Okawa

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Born in 1926 as a second son of the owner of Okawa Shoten, a wholesaler of western textiles located at the harbor in Osaka. After graduating from the Electric Department of the Engineering School of Waseda University in 1948, the author suffered from pulmonary tuberculosis and was bedridden for eight years. Due to new medications, he was miraculously cured.

After a period of searching for substance in his life, the author established CSK Corp., which started as IT services company in Osaka in 1967. He later expanded business to Tokyo, and in 1982, he listed the stock of CSK on the market as the first in that industry to do so.

Later, he created the CSK Group consisting of 90 domestic and international companies, including SEGA Enterprises, Ltd. He has a strong sense of a mission to implement the information communication revolution and to cultivate new businesses.

His motto is the “Alluring Personality is Everything.”

In 1996, he was awarded Honorary Doctor of Science from Waseda University and the Third Order of Merit with the Grand Cordon of the Rising Sun.

Book title: Yocho

December 26, 1996: First printing published.

Author: Isao Okawa

Publisher: Junji Asano

Published by: Toyo Keizai Shinpo Corporation

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ISBN 4-492-55275-8