Chapter 8

Oki, Network Solutions for a Global Society

(1999- 2001)

1. *Katsumasa Shinozuka Assumes Presidency, and "Phoenix 21" Business Plan*

President Katsumasa Shinozuka, and Phoenix 21

Oki Electric Industry Co., Ltd., faced a harsh business environment in June 1998 when Senior Managing Director Katsumasa Shinozuka assumed the company's presidency. The company had reported a large deficit in its consolidated financial results in the fiscal year ended March 1998, and prospects for a business turnabout in the fiscal year ending March 1999 were far from bright. In that backdrop, President Shinozuka told the employees in his inaugural speech that if Oki Electric were to continue to grow in the future it had to become a network solutions company. He asked the employees to make a concerted personal effort to revitalize their company.

In that situation, with Oki Electric experiencing a large deficit and worsened credibility among financial institutions, President Shinozuka ordered preparation of a set of emergency measures and a medium-term business plan—Phoenix 21. The business plan was to be a response to the need to change the way the company was managed and organized, with careful consideration of the reasons for unrealized business opportunities.

Phoenix 21 was introduced in October 1998. The name "Phoenix" refers to the bird from Greek and Egyptian mythology that sets its own nest on fire, is reduced to ashes after being consumed by the flames, and subsequently is reborn from the ashes every 500 years. The phoenix is thus a universal symbol of rebirth, and "Phoenix" was a fitting name for Oki Electric's business plan. It expressed the company's strong intention to break from the past and to transform itself into a new company.

A central policy expressed in Phoenix 21 was for Oki Electric to become a leading enterprise by focusing on business domains that would enable it to capitalize on its strengths. Two clear goals set in the plan were to achieve consolidated net sales of 850 billion yen and

Katsumasa Shinozuka

consolidated recurring income of 40 billion yen by the fiscal year ending March 2002. By "leading enterprise" Oki Electric meant that it would aim at becoming a niche leader rather than an overall leader, i.e., becoming the most competitively superior firm in its core business domains.

Oki Electric knew that for it to become a leading enterprise it had to focus on key businesses, develop superior products, withdraw from unprofitable business operations, and shift toward a new business structure while continuing its policy of "Select and Focus." Based on Phoenix 21, the company introduced business management reforms firmly founded on four main pillars: 1. building a managerial system based on global standards; 2. promoting management that will create a company of enduring value; 3. strengthening the group's consolidated management; and 4. introducing an in-house company system. Successfully introducing these reforms would allow the company to realize its vision of becoming a network solutions company. President Shinozuka was determined to make 2001 an especially memorable year for the revitalized Oki Electric because 2001 marked the company's 120th anniversary.

Corporate Vision: "Oki, Network Solutions for a Global Society"

The twenty-first century is expected to witness the arrival of global competition based on increasingly open networks. Business will be conducted more quickly, and business domains will become more globalized. Oki Electric's business role in the new era will be to grasp precisely the problems its customers face and to offer timely solutions. Indeed, President Shinozuka stated that Oki Electric can best contribute to the network society of the twenty-first century by offering network solutions. This concept is expressed in the vision of the company's future as "Oki, Network Solutions for a Global Society." Oki Electric knew that by realizing this vision it would be able to fully satisfy its customers and win their confidence.

As mentioned, the business environment prevailing after President Shinozuka took office in June 1998 was rather severe. Oki Electric's consolidated financial results for the fiscal year ended March 1999 showed net sales of 673.1 billion yen, down 12 percent year-on-year, and recurring income of minus 47.7 billion yen. Net income for the year was minus 47.4 billion yen. In the backdrop of these financial results, the company faced an urgent need to restructure not only its electronics devices division, which recorded heavy losses, but also its other business divisions and the businesses of the companies in the Oki Electric Group.

Several reasons accounted for the sluggish business situation. In the telecommunications systems market, for instance, Nippon Telegraph and Telephone (NTT) had entered a period of transition in its capital investments. Its procurement policy had moved toward open bidding, which promised tougher competition and softer pricing. Oki Electric's future business relationship vis-à-vis NTT was thus difficult to forecast. In the information systems market, meanwhile, financial institutions were curbing investments, such as in information technology (IT), making it necessary for Oki Electric to search for business opportunities in new markets. And, finally, in the electronic devices market, although prices for memory chips remained sluggish, the demand for LSIs for logic systems was expanding, focused on personal mobile devices. It was thus critical for Oki Electric to make the most of this LSI business opportunity.

Oki, Network Solutions
for a Global Society

Logo for slogan "Oki, the Network Solutions Company"

In Phoenix 21, the following specific tasks were highlighted in the three business segments of telecommunications, information, and electronic devices. For telecommunications systems: make special efforts in areas where information and communications converge, maintain and expand business with NTT, and move to enter the market for new telecommunications carriers; for information systems: target the financial, government, commercial travel, and other areas for providing network and other solutions, and enter new markets such as ITS and e-government; and for electronic devices: withdraw from the advanced general-purpose DRAM market, and accelerate the shift toward LSIs for logic systems.

In order to revitalize itself, Oki Electric had to achieve the above tasks and accomplish a shift in its business model.

Changing to new business model

A company's business model describes the type of domains in which the company conducts its business and how it structures its business to provide itself with the maximum profitability. Oki Electric's traditional business model was order-based: after receiving orders from its principal customers the company developed products to satisfy their needs and specifications. The main feature of Oki Electric was the way it earned profits in the three core business domains of telecommunications, information, and electronic devices by providing its customers mostly with hardware and other products having tangible value.

Phoenix 21 was formulated based on the idea of changing Oki Electric's business model to one that emphasized proactive innovation. In this new business model, Oki Electric would provide the market with solutions—including through strategic alliances—by developing, producing, and supplying internationally acceptable products. Phoenix 21 also outlined how to establish a fourth core business domain that converged elements of telecommunications, information, and electronic devices. In these ways, Oki Electric moved to refashion itself into a network solutions company. Under the new business model emphasizing proactive innovation, Oki Electric also offered products with intangible value, including software and service. Expectations were high that this new approach would enhance the profit-making capabilities of Oki Electric and the Oki Electric Group.

Organizational restructuring: three core business groups

The fiscal year starting in April 1999 was marked as the year for carrying out Phoenix 21 and returning Oki Electric to profitability. In line with that the company introduced reforms in April 1999 for shifting to an organizational structure comprising three core business groups. The company also decided to introduce an in-house company system a year later, in April 2000, a full year ahead of schedule in order to speed up its recovery.

As part of these organizational improvements, Oki Electric granted its business divisions wide-ranging initiatives for carrying out Phoenix 21. The previous business divisions fell under one of three groups—the Systems Solutions Business Group (SSG), the Network Systems Business Group (NSG), or the Devices Business Group (DBG). The president of each group was also chairman of the group's BG Management Council, its de facto decision-making body. Although this form of control enabled quick, decisive management of the business groups, Oki Electric went ahead and strengthened group management even further. It placed directly under the control of each business group the affiliates that cooperated with and complemented its business processes.

Oki Electric's Head Office provided solid guidance as the headquarters to which the business groups reported. To enable headquarters to perform its central role, its strategic planning function was reinforced. Headquarters was also made leaner by avoiding excessive structure between itself and the business groups, striking a balance by transferring as much as feasible of the work operations at headquarters to the business groups to make them self-sufficient. One result of doing so was that the headquarters organization, formerly comprising 23 divisions, was reduced substantially to 15 divisions.

Between March 1999 and April 2000, moreover, the company reduced the workforce at headquarters by 100 persons to slightly over 300 persons.

Select and focus, and supplementing managerial resources

One of the key ideas in Phoenix 21 was "to Select and Focus on businesses with growth potential." That idea was actually a clear statement of policy: "Select" referred to choosing unprofitable businesses to withdraw from; "Focus" referred to allocating resources to specific domains. Meanwhile, in line with Oki Electric's corporate vision of becoming a network solutions company and in order to expand its business, it was essential to supplement the company's managerial resources through mergers, acquisitions, and alliances.

An example of a key alliance was the agreement made in November 1998 between Oki Electric and Toshiba Corporation. In April 1999, based on that agreement, Oki Electric acquired the ATM-related business formerly operated by Toshiba. This alliance enabled Oki Electric to increase its share of the domestic ATM market to over 40 percent, the largest share among the companies competing in that market.

Oki Electric formed alliances in other business fields as well, and divested itself of the shares of some affiliates. Such moves enabled it to focus allocation of its managerial resources while utilizing the resources of external organizations through outsourcing. In these ways, the company shifted to a new business structure.

Oki Electric and Toshiba hold joint press conference

2. In-House Company System

In-house company management for realizing corporate vision

As signs of recovery in the Japanese economy emerged in the second half of 1999, indications of improvement also appeared in Oki Electric's business. Although consolidated financial results for the fiscal year ended March 2000 showed net sales of 669.7 billion yen, down 0.5 percent year-on-year, net income was 1.1 billion yen. Sales decreased for telecommunications systems and information systems while they increased 27 percent for electronic devices. The latter thus contributed substantially to the company's recovery in net income. A turnabout in the semiconductor market and the initial positive internal effects from the structural reforms supported that recovery.

In April 2000, in order to promote a still more energetic recovery, Oki Electric unveiled a new round of organizational restructuring in the form of an in-house company system. This restructuring turned the Head Office into a corporate headquarters and clarified its responsibility for overall operation of the Oki Electric Group. In turn, each in-house company was made responsible for managing its own business operations.

The new organization comprised corporate headquarters, the individual companies, and affiliated companies. All entities shared the common corporate vision of "Oki, Network Solutions for a Global Society." The main goal of the in-house company system was to turn that corporate vision into reality by having each entity perform its role faithfully and carry out its business operations expeditiously.

At the top of the new organization chart was the CEO, directly under the CEO was corporate headquarters, and under corporate headquarters were the in-house companies. Based on the business groups established in the previous year, three companies were set up: Systems Solutions Company (SSC), Network Systems Company (NSC), and Silicon Solutions Company SiSC). Another two companies—a spin-off company and a venture company (in-house)—were deployed.

Oki Data Corporation (ODC) became the spin-off company. ODC had concentrated on its own business and contributed substantially to the Oki Electric Group's overall financial results. The components division of Oki Electric, meanwhile, was made into an in-house venture company that corporate headquarters directly nurtured as a new business.

The affiliates positioned under the in-house companies performed tasks such as development, design, manufacturing, sales, and maintenance. Together with the affiliates under them, the in-house companies formed company groups tied closely together in the budgeting process and via various controls and reports. Affiliates other than those in the company groups reported directly to corporate headquarters.

Among important business items requiring high-level decision-making, those at corporate headquarters were discussed and decided on by the Management Committee, a group that combined the functions of the former Executive Committee and the Policy Board. Each Company Policy Board in the individual company groups discussed and decided on the items that directly affected them.

Establishing additional in-house venture companies

In January 2001, Oki Electric established two additional in-house venture companies. One was NetBusiness Solutions Company (NBC) for doing business in three domains—net payments, net sites, and net security. The other was Enterprise System Solutions Company (ESC) for providing total solutions to enterprises, principally key business operations in the manufacturing industry.

These venture companies were positioned among the in-house companies to accept the challenges of doing business in new domains. The first such challenge was in the components business, one that had already experienced steady growth in the optical fiber market, mainly in North America. Both NBC and ESC were spin-offs from divisions of SSC involved in e-business. Being readily manageable, venture companies were an effective way to take advantage of business opportunities in the rapidly expanding e-business market. At the same time that NBC and ESC were established, the components division was renamed Optical Components Company (OCC).

Reform of top management, and emphasis on performance

An Executive Officer system was introduced together with the in-house company system. At that time, a clear separation was made between the executive officers responsible for conducting management and business operations, and the members of the board of directors and other directors responsible for making certain the executive officers performed their duties. This was done in order to strengthen corporate governance and to make management more transparent and accountable.

The board of directors elected the executive officers to carry out the business of the company. The Chief Executive Officer (CEO), elected from among the executive officers on the board with representative authority, was responsible for management of the overall Oki Electric Group. As CEO and president, Katsumasa Shinozuka thus issued instructions for conducting overall business operations. Other members of the board were responsible for specific functions, e.g., information, technology, and strategic planning, and still others managed the in-house companies as presidents or, in some cases, general managers.

Another critical task Oki Electric faced was the reform of human resources management. The company began reforms in this area by focusing more closely on employee performance, such as by introducing competency and job grading as functional systems. Competency modeling and employee assessment was first applied in August 2000, aimed at changing the corporate culture and developing the employees. Next, in February 2001, job grading was introduced as the main factor for determining both accountability and the base salary range. Supervisors appraised the performance of their subordinates, and the appraisals determined promotions, pay increases, and bonuses. Under these new systems of job grading and performance appraisals, employees who continually performed better than expected were assigned greater responsibilities and promoted to higher grades.

3. Oki Electric in the Twenty-First Century: "Phoenix 21 Sky High"

New business plan, "Phoenix 21 Sky High"

In March 2001, Oki Electric announced the "Phoenix 21 Sky High" medium-term strategic business plan. Modeled on the successes of its predecessor, the Phoenix 21 plan, the Phoenix 21 Sky High plan will reorganize Oki Electric's business domains to realize the corporate vision of "Oki, Network Solutions for a Global Society." Other goals include a strengthening of Oki Electric's business-management base through network-based corporate management,

Business domains for realizing network solutions and introducing qualitative and structural reforms to shift the firm by 2005 from a "stable earnings" company to a top-tier company.

In the twenty-first century, a society will emerge that uses networks spanning the globe as a platform to overcome limitations of time and distance, to break down barriers between countries, regions, and cultures, and to enable both individual and corporate activities to be conducted impartially and securely. Oki Electric calls this new society the "e-society." In fact, Oki Electric's corporate vision, "Oki, Network Solutions for a Global Society," is an expression of the company's intent to provide the network solutions essential for supporting business in the e-society.

The content of Phoenix 21 Sky High underscores how the need to provide society with network solutions had become increasingly critical. Besides IT solutions focusing on products, Oki Electric is moving to expand its business to cover e-business solutions centered on services. It will focus its growth strategy on creating new business with customers, utilizing devices, terminals, network infrastructure, platforms, and applications. This strong intent to create new business will lead to a restructuring of its core business domains. As a result, the company's focus will shift to four core business domains for network solutions. One of these is called Network Infrastructure. The other three—Customer Contact, Multimedia Messaging, and Network Transactions—are called "service bridges."

Network infrastructure, and three service bridges

Oki Electric is taking advantage of the special characteristics of its four business domains and moving to firm up its market position.

In the Network Infrastructure domain, Oki Electric will develop edge-network products and optical-access network products that incorporate optical components, a field in which it excels. This domain is thus in a position to provide various systems needed for the ubiquitous network.

The three service bridges are positioned to provide specific network solutions as follows.

Customer Contact: This domain will provide Oki Electric's strongest customer base, i.e., financial institutions, travel agencies, and government agencies, with customer contact solutions for conducting their e-business. These solutions will consist primarily of systems that form the basis for providing services to customers, such as ATMs and sales office systems for financial institutions, and will include linkage to backyard systems that support customer management and back office processing.

Multimedia Messaging: By integrating media such as the Internet, mobile phones, facsimile, and voice mail, this domain will help to provide the secure and reliable messaging services needed in personal-mobile communications. These services will be built around computer-telecommunications technologies such as Voice over Internet Protocol (VoIP) and computer telephony integration (CTI). Oki Electric has been especially successful in CTI with its CTstage products.

Network Transactions: This domain will provide unique e-payment and security solutions indispensable for network-based transactions and the exchange of information, as well as the platforms and applications used in the network transactions that will form the very foundation of e-business and e-governments.

Businesses supporting network solutions

Phoenix 21 Sky High also outlines other businesses in support of network solutions. The businesses are called Printing Solutions, Silicon Solutions, and Optical Components.

Printing Solutions: Oki was well ahead of other companies in developing leading-edge LED head technology for producing small, high-speed, color page-printers. It continually provides competitive products to meet global market needs based on such technology.

Silicon Solutions: Oki Electric will continue to emphasize growth in the LSI business by developing the system-on-chip (SoC) business, under the banner of digital communications, by focusing on the demand for system chips and system memory in the mobile/personal era. In the dynamic random access memory (DRAM) market, the company will specialize in application-specific DRAMs (ASDRAMs), maximizing its advanced proprietary process technology.

Optical Components: Oki Electric will strengthen its North American operation, where it has already acquired major customers. It will focus its resources on sectors in which it excels, such as gallium arsenide (GaAs) chips and optical modules, aiming for high-level growth rates in the rapidly expanding optical network market.

Phoenix reborn: voyage into twenty-first century

In the backdrop of the slow recovery of the Japanese economy, Oki Electric's consolidated financial results for the fiscal year ending in March 2001 showed sales up 10.5 percent year-on-year to 740.2 billion yen. Recurring income was 22.2 billion yen, and net income was 8.9 billion yen. Net sales in the information systems business segment were up only slightly, but they were up 27 percent and 11 percent, respectively, in telecommunications systems and electronic device systems, thus contributing significantly to an increase in consolidated net sales. Because of these favorable results, Oki Electric was able to pay dividends once again, one of its original goals for the fiscal year ending March 2001, the year marked in Phoenix 21 as "a year of recovery."

Phoenix 21 Sky High, announced in March 2001, includes goals to achieve in the fiscal year ending in March 2006 net sales of 1 trillion yen and an ROE of 12 percent. In the new business plan, corporate growth is defined as "increasing the value of the corporation," and the company has set goals for both growth and profitability. At the beginning of the fiscal year ending March 2002, marked as "a year of progress" in Phoenix 21 and "a year of preparation" in Phoenix 21 Sky High, President Shinozuka spoke to Oki Electric's employees as follows.

"Our next goal is to increase the value of the corporation to a level that will satisfy our stockholders and employees. By the fiscal year ending in March 2006, Oki Electric will attain net sales of 1 trillion yen and will be a superior network solutions company contributing to the global e-society. In the process of managing for value, we will shift from being a stable earnings company to being a top-tier company with enduring value."

Kibataro Oki was far ahead of his time in the late 1800s when he sensed that Japan was about to enter the age of communications. In response to the emerging business situation, he founded Meikosha in January 1881. Meikosha eventually became today's Oki Electric.

In 2001, 120 years after the company's founding, President Shinozuka has confirmed that the global e-society has arrived, and he is determined to have Phoenix 21 Sky High succeed so that Oki Electric can continue to expand. Indeed, President Shinozuka views Oki Electric as being reborn and starting on a new voyage into the twenty-first century.