

2010.5 Notes from the President

“明るい社員に明るい未来、JLC”

“If you can dream it, you can do it!”

“Chance & Challenge!”

Bentley College MBA Study Tour in Japan

2010.5.12



**“Effective Management to Restructure a Company in Japan-----
How to Motivate People at the Company”**

Japan Laser Corporation President /CEO Nobuyuki Kondo

Introduction:

Good morning everyone.

My name is Nobuyuki Kondo.

I have been President /CEO of JLC, Japan Laser Corporation, for over 16 years since May 1994.

JLC is the oldest and biggest trading firm specialized in lasers and electro-optics in Japan.

Concurrently I have been Chairman of JIAL, Japan Importers Association of Laser and Electro-Optics, for over 11 years since February 1999.

While I lived in Melrose MA, from 1984 through 1992, working for JEOL USA in Peabody, I was invited a couple of times to Bentley College to make speech on Differences of Business Practices between Japanese companies and American ones.

Since I came back to Japan, I have been continuously invited by Bentley College to make a presentation on the similar subjects to the MBA students of the study tour, like you all since 1993.

Today I am going to talk to you how to motivate people in a small company, JLC.

I hope you will enjoy my story and will be encouraged by the new management philosophy of the company.

1. President of JLC Transferred from Director of JEOL

In entered JEOL, the world leading electron microscope manufacturer, in 1968, when

JLC was coincidentally established.

JEOL expanded its business to the US in 1961 and started direct sales of electron microscopes in Boston in 1966.

I was transferred to New England, where the headquarters of JEOL USA, Inc is located, in 1984 and lived there until the end of 1992.

After being responsible for the domestic sales and marketing of JEOL in 1993, I was transferred to JLC, a wholly owned subsidiary of JEOL, in 1994 to take full responsibilities as its president to restructure the company.

JLC was on the verge of bankruptcy at that time, having a negative net worth.

JEOL's top management explained to me the five main reasons for my appointment.

- 1) JLC is a trading company that requires its president to speak English fluently.
- 2) The president should have occidental business experiences to deal with overseas partners.
- 3) The president should have domestic sales experiences for JLC to promote its products principally in the markets in Japan.
- 4) The president should be good at management-labor relationships.
- 5) The president should be energetic and motivated to restructure the company by all means.

Off course I did not have any other choice but to accept their appointment.

Yes, I was able to speak English as a tool of communication with overseas people.

Yes, I experienced in the international business in the

US.

Yes, I was in charge of domestic sales and marketing.

Yes, I was good at management-labor relationships, because of my previous experience as the president of JEOL workers Union.

Yes, I was the youngest director at JEOL.

2. What were the reasons JLC was on the verge of collapsing?

In order to succeed in the business, there are various factors to be aware of in each industry. In other words, there are no absolute rules to succeed for any company. However, there are definite reasons for failure in any company. After investigating the past management and observing people at JLC, I figured out some of the reasons why the company nearly went bankrupt in the past. The findings are still pertinent to today's operation of the company. I hope the lessons contribute to your business decisions at any company.

- 1) Inadequate orders, sales and gross profits
- 2) Expenses out of line with sales.
- 3) Too many people on staff proportionate to total sales.
- 4) Fixed personnel expenses
- 5) Lack of effective administration.
- 6) Lack of a sense of crisis.
- 7) Poor communication among managers.
- 8) Excessive long-term account receivables.
- 9) Excessive long-term inventories.
- 10) Ineffective sales promotion.
- 11) Under-motivated people.
- 12) Lack of employee discipline.
- 13) No energy or enthusiasm throughout JLC.
- 14) Weak relationships with suppliers.

I suppose that there was not effective and efficient management at JLC, all things considered. Poor management always leads a company into danger. JLC needed a better management philosophy to survive as a going concern.

3. How did JLC recover?

The most important reason was highly motivated people.

When I was transferred to JLC as President in 1994, I remained at the director position at JEOL too. Although we enjoyed a profit in the fiscal year 1994, I felt something was wrong with the perception of my role at the company by people at JLC. I heard the rumor that they thought Mr. Kondo would go back to JEOL, the parent company, in the near future after successfully restructuring JLC, because he was still the youngest director at JEOL.

I realized this kind of rumor discouraged capable staff members at JLC and was bad for moral. For example, it was easy to presume that the company might clean up all of its deficits by sacrificing employees' compensation.

Subsequently, I resigned a director of JEOL in June of 1995, after serving the company as a director for six years.

The atmosphere at JLC then changed. I acquired everyone's confidence and acceptance. They took my resignation and dedication to the company seriously and worked harder with genuine cooperation to restructure JLC.

Another reason was changing compensation systems to improve our motivation.

With the seniority based wage system your pay goes up as you get older, regardless.

Many capable JLC employees moved on to a company that would judge them based on their talents. One important job for business is to get excellent human resources and keep them from leaving. I believe it is important to give rewards to company employees who produce major results.

After observing employees' performances and behaviors, I finally decided to change our wage system from the traditional seniority system to the efficiency-oriented wage system. They are always required to polish their skills and acquire necessary job qualifications. This countermeasure was one of the

key factors in our successful recovery.

4. Why we became independent from our parent company through the MEBO?

There are always both sides of a coin.

JEOL had some reasons to let JLC be an independent company.

Upon establishing the new mid-term plan, JEOL decided to retreat from the optical business, including the surrender of the controlling ownership of JLC.

A joint venture of JEOL and JLC, JEOL LIOSONIC, Ltd., went into liquidation in 2003.

The parent company lacked any capable candidates for the president and the administration manager of JLC, who were supposed to be sent from JEOL to JLC.

I was told by the president of JEOL that JEOL was not able to send JLC any successors of them in 2006.

On the contrary, JLC had also several reasons to pursue any possibilities to leave from JEOL's consolidated companies.

We did not have any rights to make timely financial decisions, such as bank loans, buying foreign currencies, etc.

We needed to get approval in well advance from the parent company to promote managers and to appoint directors, etc.

In short, we were not able to make our own decisions to cope with quickly changing management environment of the company.

Eventually I established JLC Holdings (JLCHD) with the support of Mitsubishi Bank in June 2007.

After selling my shares to all directors and employees of JLC, all of them have owned stocks in JLCHD, 53.1% and 32 % respectively, totaling 85.1%. The former parent company owns only 14.9%.

At the same time JLCHD acquired entire stocks of JLC from JEOL and completed the MEBO, Management Employee Buy-Out in early July.

From this point of view, JLC is a unique company not

only within the JEOL group but also in Japan. Our company is a company in the true sense of the word's Latin origin.

5. Beyond the Leman-Brother's Shock; JLC Today

The year of 2007 was the historically best year for JLC, archiving US\$ 33 million sales.

However, our business climate was getting worse in 2008, eventually our annual sales decreased by 25% down to US\$ 25 million after the Leman-Brother's shock.

Fortunately enough our company recovered dramatically in 2009, successfully making our business plan of US\$ 30 million.

We began this year quite successfully with an unexpected large influx of POs.

The amount of sales in Q1 (January through March) was US\$ 11 million.

Under these circumstances, we are confident to exceed our annual business plan of US\$ 35 million at the end of December 2010, which will be record high.

The total number of people is 57, including regular, part time, temporally and contracted employees, as well as directors.

6. Our Management Philosophy

We facilitate the development of a great diversity of sciences and industries, creatively applying optical technologies through cultivation of mutually beneficial relationships with customers and partners.

7. Our Corporate Missions

- 1) We provide customers with "Integrated Light Solutions".
- 2) We provide all people who work for JLC with a fertile environmental and opportunities to attain self-enrichment and accelerate their professional development regardless of age, sex, academic history, race, religion or national origin.
- 3) We contribute to mutual understanding among global citizens and to world peace through mutually profitable relationships with overseas

suppliers.

8. Our Vision for the Future

- 1) The markets JLC focuses on will be not only in Japan, but also in East Asia.
- 2) JLC achieves US\$40 million in sales within a couple of years, and US\$50 million in the near future.
- 3) JLC group achieves 100 million annual turnover with several companies under JLCHD in the future.

9. Our Strategy

- 1) JLC imports and sells the world's most advanced optical technologies and products from overseas suppliers in the scientific and industrial markets in Japan.
- 2) JLC offers technical support to suppliers' customers in East Asia.
- 3) JLC promotes systems with added value of peripherals and software, etc.
- 4) JLC supports domestic manufacturers to promote their products in East Asia.
- 5) JLC creates a mutually trusting relationship among stakeholders via the concepts of "CAR", Confidence, Appeal and Respect.
- 6) JLC cooperates with overseas suppliers to establish their subsidiaries in Japan, when they wish, under JLCHD.
- 7) JLC supports directors and managers to establish their own companies if they wish under JLCHD.

10. Our Management Policies

"S.O.F.T." is an acronym representing the essence of our management policies at JLC. SOFT stands for Speed & Simple, Open & Opportunity, Fair and Flexibility and Transparency & Teamwork. As a benchmark for our business practices and corporate decisions we constantly strive to adhere to these concepts for better management.

- 1) Speed:
In order to cope with the ever-changing company

environment, management should make decisions and respond to changes with all deliberate speed. Speed is one of the important elements of effective management in a global situation.

2) Simple:

JLC has constrained itself to simple regulations and business procedures. For example, we are proud of having a very low overhead and small Administration Group utilizing only three staff members, management approvals can be obtained through our intranet, everyone has direct access to all levels of management, and our personnel evaluation system is straightforward.

3) Open:

Being open and candid is essential for everyone at JLC. Even the President, should willingly accept comments and criticisms, including those which make him uncomfortable. He should listen to such requests or criticisms with a cheerful smile and a positive attitude because if his face or his body language shows displeasure at unfavorable comments, no one will make them to him again. If we all keep on an open mind and give thoughtful consideration to constructive criticism, this will be a major contributor to continuous improvement.

4) Opportunity:

JLC provides people who work for the company with a fertile business environment and a wide range of opportunities to attain self-enrichment and accelerate their professional development.

5) Fair:

We treat our people, sub-contractors, and suppliers, indeed everyone with whom we interact, fairly, regardless of age, length of service, sex, academic history, race, religion, or national origin. JLC has three regular employees from China. One of the reasons why we have many people of diverse national origin is that we treat them equitably, without bias

or discrimination.

6) Flexibility:

Since the circumstances under which we conduct business are always changing, we have to adapt to changes in any situation with savoir-faire. Management should be flexible in its business practices and the even company regulations should be applied with thoughtful and just consideration in order to demonstrate appreciation for a given situation.

7) Transparency:

We try to share information and our philosophy on management, business procedures, and results with all employees through a variety of meetings and emails. JLC discloses most of its important financial information and trade secrets with people working for the company. The company has been publishing its newsletter, JLC News, every month. The newsletter always carries the previous month's financial results as well as individual contributions to the company.

It is quite unusual for a small company like JLC in Japan to have a weekly management meeting, a monthly all-inclusive staff meeting, and an official BOD meeting

8) Teamwork:

Wherever a company exists, needless to say, teamwork is crucial to achieve the best results. However, our emphasis on autonomy of the individual could be misconstrued to conflict with teamwork. Self-motivated people work with minimal supervision as they should, but we must always maintain our close collaboration and teamwork through whatever techniques are appropriate.

11. Our Belief

1) As employees grow, the company grows.

- 2) Employees' satisfaction comes first before customers' one.
- 3) Unless employees are not satisfied with the company and products or services they provide, they cannot satisfy their customers.
- 4) Unless employees do not appreciate the company's compensation or opportunities provided, they cannot share the pleasure with customers.

12. Our Corporate Culture we are aiming for

- 1) We endeavor to continually improve our corporate culture by building on the respect we have for each other, sharing the pleasure of working closely together, and being amiable and confident in all our business and personal relations.
- 2) We are grateful for the stage offered by JLC and we strive to continue to evolve to a higher level by constantly challenging our personal and JLC's goals on this stage.

13. Our Principles of Conduct

JLC is a company that utilizes its unique corporate missions, management philosophy, management policies and corporate culture objectives as building blocks to achieve success. To contribute most effectively to this success, it is essential that each and every employee adhere to the guidelines described below.

- 1) I will collect new information with a keen sense of awareness and convey it quickly to everyone it may concern.
- 2) I will adapt to changes in any situation in a composed and professional manner with savoir-faire.
- 3) I will always strive to learn the facts and search for the truth.
- 4) I will greet others with a cheerful smile and interact with everyone without preconception or prejudice.
- 5) I will look at the complete picture to be able to explain it in plain and simple words to everyone in

our business.

14. JLC against a Poorly Motivated Company

If you work at a company, which has following systems and corporate culture, your dissatisfaction with the company will almost surely become quite severe.

- 1) You are discriminated against by age, length of service, sex, academic history, race, religion, or national origin.
- 2) Relatives of board members enter the company and they are treated with favor.
- 3) Management favors employees who are sycophants (apple polishers).
- 4) Your ability and competencies are not fairly evaluated.
- 5) Your contributions are not properly appreciated.
- 6) Your compensation is not fairly matched to your contributions.
- 7) Human relationships among company insiders are bad.
- 8) There are no available educational systems, which can contribute to your growth.
- 9) Mixers, parties, outings, company sponsored trips, etc. are not provided.
- 10) There is no chance to use English to become international businesspersons.
- 11) The company's future is not bright.
- 12) The president doesn't have strong leadership skills to grow the business.

On the contrary, JLC is not such company, indeed the antithesis, being managed according to a very different corporate philosophy under a good corporate culture. However, there will always be room to improve our management techniques and business practices.

15. A Company with the most Motivated people in Japan

In order to become a premier company in Japan at the forefront of employee motivation, we will devote our utmost effort to this goal.

- 1) JLC's employees have been highly motivated

through the MEBO.

- 2) We need to modify our stockholders association to accept newly hired employees who joined us after the MEBO in 2007.
- 3) We treat our people not as “one of them”, but as an individual one.
- 4) We produce a friendly atmosphere through daily dialogues between management and employees.
- 5) We continue our weekly notes exchanging our awareness with management and employees.
- 6) We continue a close contact between management and employees, such as mixers, parties, outings, company-sponsored travels, etc.
- 7) We create a great sense of inward security through being ever profitable.
- 8) We offer our people and opportunity to work until 70 years old if they want.
- 9) We continuously offer a wide range of opportunities to attain self-enrichment and accelerate their professional development, such as training courses provided by several consulting firms.
- 10) We always improve our compensation systems to meet employees’ expectation.

16. Our Compensation Systems

JLC’s compensation system has been reviewed every year to improve our motivation.

- 1) JLC’s compensation systems are very unique, combining seniority-based, competency-based, merit-based and philosophy-based systems in both wage and bonus as well as in severance pay or retirement money.
- 2) Every employee needs to get a TOIEC score more than 500, as so called “Working Visa at JLC”.
- 3) The basic competence allowance consists of three factors:
 - a) Information processing ability in English, represented by the TOEIC score
 - b) PC/IT operating and utilizing ability
 - c) Attitudes towards people, such as “Greet others with a cheerful smile”.
- 4) The monthly basic competence allowance ranging

from US\$ 80 to US\$ 650 is evaluated every six-month by the board of directors.

- 5) The monthly manager allowances ranging from US\$ 500 to US\$ 1500 are evaluated every six-month by the board of directors.
- 6) The basic salary is decided according to ranks, which are decided based on BOD’s evaluation.
- 7) The amount of bonuses paid two times a year are decided based on both evaluation by BOD and based on the amount of gross profits each employee and his or her group acquired.
- 8) In order to adjust the amount of the bonus for the motivation point of view, the adjustment bonus is also provided.
- 9) The retirement payment is calculated not by the length of service but by the contributions to the company.
- 10) The BOD regards employees’ understanding of the corporate philosophy and the corporate culture we are aiming for as very important.
- 11) JLC’s employees and directors need to have adequate communication skills in English to send out our idea to the rest of the world.
- 12) We have to be irreplaceable staff members at JLC to improve our compensation.

17. President’s Fundamental Guidelines for Management

I hope our JLC people understand my sense of value and philosophy for the management of the company. My role and intent is to lead the company, not to force everyone to rigidly adhere to my individual way of doing things. Therefore I always try to remember and hold to the following eight principles to conduct myself as president and to make decisions at JLC.

- 1) Openly accept people coming into the company; don’t pursue those that are leaving.
- 2) Gain from losing. =Postpone your profit in deference to others happiness. =
- 3) Turn misfortune into a blessing. =If fate deals you a lemon, make lemonade=
- 4) More is not always better. =What people want,

give it to them in moderation. =

5) Don't make yourself look good. (Be honest and candid.)

6) Don't meddle with others.

=Always get people's consent before giving them your suggestions or doing them favors. =

7) Make decisions of your own free will, when it is appropriate for you.

=Accept personal responsibility, don't shift blame to others. =

8) What happens around you is for the best and is your fate.

= Accept life as it is. =

My management objective is not to make JLC a big company, but to help create a company in which all people enjoy their work and attain personal growth, satisfaction, and success.

18. JLC's Way

There is no way to happiness.

Happiness is the way.

We live now and here.

We should not regret what we have done in the past.

We should not be anxious about what will happen in the future.

We should focus on the task at hand now and here.

Everything is up to us.

Take responsibility for every area of your life.

Last but not least the shortest distance between two points in life is not straight.

There are always ups and downs in life.

It is my belief based on a lot of experiences in my life.

Thank you for your attention.

JLC's New Management Slogans

"Integrated Light Solutions"

We facilitate the development of a great diversity of sciences and industries, creatively applying optical technologies through cultivation of mutually beneficial relationships with customers and partners.

We endeavor to continually improve our corporate culture by building on the respect we have for each other, sharing the pleasure of working closely together, and being amiable and confident in all our business and personal relations

We are grateful for the stage offered by JLC and we strive to continue to evolve to a higher level by constantly challenging our personal and JLC's goals on this stage.

"Do Not Disclose Confidential information at JLC"

You hear many confidential things at the all-staff meetings and get important information in the JLC NEWS every month. Indeed, it is crucial not to disclose them outside of the company. You may hurt the company by careless chatting where people outside the company can overhear you.

"The Best Way to Predict the Future is to Invent it."

(Alan Kay)

“ It is not the strongest of the species that survive, not the most intelligent, but the one most responsive to change.”

(Charles Darwin)

Where there is a will, there is a way.

There is no way to happiness. Happiness is the way.

Thank you very much for working hard together and closely with management.

Nobuyuki Kondo

“JLC is on the Move.” = 2010 年大爆発 =