

## **2nd Study Group Meeting on the Human Resources Securing of ICT Ventures Summary of Minutes**

1. Date and time: July 24 (Mon), 2006 13:00 to 15:00
  
  2. Location: Shared Conference Room 2, Ministry of Internal Affairs and Communications
  
  3. Attendees (Honorifics omitted)
    - (1) Members  
Yuji Akaba, Jusuke Ikegami, Yukio Ohkubo, Etsuko Okajima, Satoshi Sekine, Noriyuki Takahashi, Tohru Maekawa, Shuichi Matsuda, Tetsuro Matsumoto, Norimasa Yaguchi
    - (2) Ministry of Internal Affairs and Communications  
Katsuno (Deputy Director-General of Minister's Secretariat), Sato (Director of the Information Policy Division), Mishima (Assistant Director of the Information Policy Division)
    - (3) Observer  
Shinpei Ara (Employment Development Division, Employment Security Bureau, Ministry of Health, Labour and Welfare)
  
  4. Summary of proceedings
    - (1) Opening
    - (2) Agenda
      - 1) Guidelines for the compilation of reports and guidelines for the implementation of case studies
      - 2) Management professionals required for ICT ventures and strategy for their employment
        - \* Regarding 1) above, explanation based on Document 2 by the Secretariat and the report on the result of interview to H. I. Corporation who cooperated in advance. Regarding 2) above, questions and answers as well as opinions were exchanged over the presentation based on Document 3 by Member Okajima.
- <Guidelines for the compilation of reports>
- Every successful company has made mistakes. However, their present success derives from the proper handling of such mistakes. It is necessary to incorporate

- in the guidelines when and how they addressed these mistakes.
- It might be rather harsh to say, but it is attributable not to the environment but to the company and management that an ICT venture cannot secure human resources. I think that this is an essential policy to further increase the success potential of ICT ventures and enable promising personnel to take more important roles.
  - I think that the guidelines should include the viewpoint of determining at which timing in the growth stage recruiting ability increases most, and also what is the best timing for making investment to secure human resources. It is generally understood that consumer awareness and credibility increase to improve the recruiting ability after IPO, but this may not necessarily be true. The reasons are: 1) human resources that can take risks will lose interest in ICT ventures after IPO; and 2) it is difficult to make investments immediately before IPO, such as paying higher salaries or providing stock options to personnel, as the company is conscious of external shareholders and their financial status. Consequently, about one year before IPO, I believe, is the best time to secure human resources, but few ICT ventures can take such risks.

<Policy for the implementation of case studies>

- The purpose of this Study Group is to pull ICT ventures in the establishment phase up to the business development phase. For that purpose, I consider it important to properly grasp the issues focusing on companies that have been in business for five years.
- It is the scope of this Study Group to understand the background of two phases: the establishment phase and the business development phase. It is therefore important to grasp the events that unfold during these phases.
- Consultations should be made with each ICT venture for the handling of information gathered through interviews.
- What period is actually deemed to be the "business development phase" depends on the viewpoint of the president of each company. In interviews, interpretation of the business development phase will be left to the president. We are to catch the trajectory of growth as we ask about the change in human resources after recognizing the difference between the executives listed in the statement (security registration statement) upon going public and the current executives.
- Taking into account that we are interviewing busy management executives, we assume that the time they offer to us will be about one hour. So items for

inclusion in the interview should be as few as possible.

- Since the scope of case studies covers from the establishment phase to the business development phase, it would be better to focus questions on management executives. Namely, I think that it would be better to allocate more questions and time for question item 2 and less for question item 3.
- It is necessary to gather mainly failure cases. If cases are difficult to handle, I suggest that they be generalized and organized also by taking the experiences of members into consideration.
- Since the scope of this Study Group covers from the establishment phase to the business development phase, the targets of interview will be the president, the founder, or CEO/CFO, who have been in the company since its establishment. Some ICT ventures, however, may have personnel responsible for personal management who have an influential power, and in such cases it seems better to have the president introduce the personnel manager as needed.

◇ [Exhibit 2 Draft interview items]

- The management structure depends on whether or not any third party has invested in the company. Accordingly, it is necessary to add items enquiring about capital policy.
- I am afraid that few venture companies increases or replaces management executives after giving sufficient consideration. Under the present situation, it may be assumed that in many cases roles are changed and new functions are added in the course of handling the flood of operations. So it seems better to confirm from what operation the management started delegation of power and how this was achieved.
- As we want to grasp the correlation between the business model and securing human resources, I suggest that we also ask about the business models of the companies who have been in business for about five years and enquiring about the background of their management structure.
- It can happen in the growing process of an ICT venture that not just one person but several human resources may join or retire from the company. How about questioning the timing and reasons for such cases?
- I believe that the purpose of recruitment can be categorized after the business development phase according to various stages. We may even ask about the reason why they bother to recruit personnel when labor can be obtained through outsourcing.

◇ [Exhibit 3 Preliminary questionnaire]

- Since the scope of our case studies covers from the establishment phase to the business development phase, we may ask them to detail the sales and number of employees in their single company. As for the number of employees, it would be better to let them state the number separately for permanent employees and contract employees, including part-time workers.
- There may not only be cases where operations are committed to permanent and part-time employees but also cases where the whole operation is outsourced through some business cooperation. Information should be gathered in interviews about this sort of situation.

<Management professionals required for ICT ventures and the strategy for their employment>

- I believe that the success factor in venture management is to promote "business development," "organization (management) development," and "leadership development" in a good balance. There may be a tendency, however, to focus attention only on the business development forced by the circumstances and organizational development and leadership development (namely, the nurturing of the "DNA" of the company, such as fostering the culture and the next-generation leaders, etc.) tend to be insufficiently implemented. As a result, problems may occur such as a sudden retirement of a large volume of human resources and the emergence of internal disunity.
- When the "pain of growth" diagnosis list is completed by the management of a venture, not many of the items related to the "business development" area are relevant to such pain and therefore we can say that there is no problem. Organization (management) development-related items, on the other hand, are found relevant to many companies and therefore we can say that there are a lot of problems. Those questions on the upper section of the list represent the points that companies in the establishment phase have not achieved and those in the lower section represent those that companies in the professional phase have not achieved.
- ICT ventures tend to look for supermen who will be able to become an adaptable fighting potential, but it is difficult to actually acquire them. It seems that corporate management procedures can be improved if necessary functions are secured by a team consisting of two or more personnel with expertise.
- M&As may be effective means for securing human resources. I suggest that we ask in interviews about the timing when a large number of personnel left or joined the company and the background story.

- Human resources recruitment is now under harsh competition in the recovering business climate. In particular, in the human resources recruitment of ICT ventures, there is now fierce competition with large companies and they are at a disadvantage (especially in terms of annual income). One recent case shows that the annual incomes offered to a person who is from a strategic consulting firm (with the annual income of 15 million yen in the former post) by both a large firm and a venture were 16 million yen and 6 million yen, respectively.
- In the recruitment of venture companies, they are concerned about whether they should emphasize "adaptable fighting potential or culture fitting" or "will or skill." In terms of Cs and Ds on P.22 of Document 3, it can be said that there are generally more Ds.
- Strategies toward securing human resources are given on PP. 23 to 24 of Document 3. Generally speaking, motive development will be crucial in the recruitment of personnel, including management. Since the competition is also severe regarding new graduates and graduates with only short work experience, we should pay attention to those having potential in niche areas.
- Recruitment advertisements unexpectedly won't pay so well. "Seminar not for recruitment purposes" and "Business plan contest" are effective to lower the hurdles for moving forward those who continue to stay in large firms without acting, even though they have intention to change jobs, and think that they are too busy to study about venture companies. Furthermore, it is important to help target human resources to recognize that they are actually wanted through interviews with presidents or visits to offices. Interviews by the president are also effective for securing management executives.

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