

3rd Study Group Meeting on the Human Resources Securing of ICT Ventures Summary of Minutes

1. Date and time: October 16 (Mon), 2006 16:00 to 18:00
2. Location: Conference Room 1001, 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) Framework for the compilation of the report
 - 2) Issues in the ICT ventures and responses
 - * The Secretariat explained 1) above based on Document 3, and 2) above based on Document 4, followed by questions and answers and exchange of opinions.

<Growth stages>

 - As for the "growth pains," there are many points in common between the expanding business phase and the preparation for listing on the market phase. Accordingly, we will proceed with our discussions on two axes: (i) establishment phase; and (ii) from the business development phase to the listing preparation phase.
 - (i) Establishment phase

<CEO/Management>

- Where CEO doubles as CTO, a COO may sometimes be secured to satisfy this function.

<Management principles>

- Case studies show that while management principles can be shared without being written in a statutory form since the management consists of fewer executives in the establishment phase, it usually becomes necessary to set them in a statutory form, and define a procedure to convey such principles from the management as the number of employees increases in the business development phase and after.

<How to gather founding members>

- In Japan, in many cases companies are founded with members within the informal network of old boys/girls of universities, peers at former workplaces, and relatives. Since such members do not always make up a balanced group, it is necessary to secure human resources outside the network and share functions properly if rapid growth is desired.
- In technical spin-out cases, CEOs may sometimes be able to gather only technical human personnel through their own networks.
- In "technology-based" companies, if the CEO uses money in inappropriate way although the money is needed to promote leveraging of the business, other members may sometimes hesitate to propose revisions. Consequently, it may lead to contention in the management, resulting in a disturbance and the CEO leaving the company.
- We should summarize the advantages and disadvantages of cases where a company is founded on an informal relationship among founding members and other cases. One of the disadvantages is, for example, that even if a person is later found to be acting inappropriately, he/she cannot be dismissed because of their close relationship with the CEO.

<Necessity to incorporate shareholdings>

- Usually the CEO contributes more than other management members. When a CEO transfers his/her post to another person and becomes the CTO, this may cause problems.
- The problem of shareholdings involved in transferring the post of CEO depends on whether the company wishes to remain a small or medium-scale company or to grow rapidly as a venture company. To let the CEO transfer their position by reducing the number of his/her shareholdings can sometimes be triggered by the movement of venture capitals.

<Messages in the establishment phase>

- A message must be sent to the effect that "These are the last things you are allowed to do." ICT ventures in recent times are in a bubble state and appear to have acquired a great amount of money that is being spent wastefully. Thus, a message must be delivered that discourages the spending of too much money; for example, only CFOs with an annual salary of 5 million yen or lower can be employed.
- That venture capitals will not invest money if they do not have any management with the viewpoint of some sort of "management control" may be one of the messages to be emphasized. Venture capitalists wish to make active investment in ICT ventures that require money in advance, but they cannot invest in companies whose management cannot fully explain their business.
- An excellent CEO will try to raise money from outside because money for growth will be necessary in the business development phase (if not in the establishment phase) in either of the types and thinks to control so as not to have their share grabbed by venture capitals.

<Summarization of the establishment phase in the Human Resources Securing Guidelines>

- "Separation of CEO and CTO" and "Securing the 'foresight' of a CEO" given in Document 4-4 are the first considerations, so that ICT ventures in the establishment phase can directly take action.
- Some CEOs can be found in "technology-based" companies who understate the functions of CFO and CTO. What can be expected is that you make a self-check to recognize the required functions and if you can assume these functions do your best to fulfill them. If you lack the skills, find someone who can complement you. In addition, it is necessary to check which functions have the higher priority for the company.
- Whether the "function" exists or not should be checked in the checklist in the establishment phase. The function may be assumed by two or three persons. The flow will be 1) to confirm on the check list for each role of CEO, CTO, CFO, and COO; and 2) study the know-how to complete any insufficiencies.
- The more time passes after establishment, the more ICT ventures tend to fall into a helpless state. We as a venture capital company wish to support ICT ventures from as early a stage as possible. Utilization of external resources is desirable

such as "using external specialists (capital investors including venture capitals and banks) to implement management meetings right after the establishment" given in Document 4-5.

(ii) Business development phase – Listing preparation phase

<Management>

- It is necessary as functions of CEO to show the management principles, visions and values to generate a centripetal force.
- The role sharing between CEO and COO in the establishment phase is unclear but role sharing is essential in the business development phase and after. Functions necessary for the management in each phase must be defined.
- Looking from the viewpoint of an organization, a framework will be needed when the organization consists of fifteen to twenty members. The CEO or COO must play the role of establishing the framework in the company and it would be better if the guidelines showed a detailed procedure for doing this.

<Culture and communication>

- It is often the case in many companies that business development proceeds towards growth while the development of the organization and the leadership is left behind. How to build the concept of values and management principles should be written in the guidelines. Furthermore, it will be necessary to link the concept of value/management principles with strategies, frameworks, and systems to properly establish them.
- Issues like the method of communication must be written in as much detail as possible. The guidelines will not be useful unless they present know-how, such as how it is difficult for a management executive alone to communicate management principles once the organization consists of more than twenty persons. They must be communicated via key persons, and you must have two or more key persons who have a direct communication line with the executive.
- Some management executives of venture companies indicate as a reason for sometimes holding meetings at a place like a pizza restaurant, instead of ordinary meeting, and it is important not to fix where the boss sits. They listed as an advantage that the boss can move over to his/her subordinates to talk to them directly.
- Communications cannot be successful by just setting the situation. It is necessary to summarize what situations were selected based on what context and

background, and how they were operated.

<Mechanism of personnel affairs>

- It is desirable if managers are selected internally but human resources are actually immature in many ICT ventures and thus they cannot avoid employing them from outside.
- The business development phase is a key phase where the CEO must play the role of a billboard. This often works efficiently in terms of recruitment.
- It would be useful to explain the sharing of roles in the recruitment process between the management and a responsible person, such as the personnel director. Since management principles must be properly communicated by the management, opportunities will be lost if it takes time for the management to handle clerical work if there is no proper scheme. The personnel director and staff exist to build up the framework and get its operations running.
- ICT ventures are troubled in selecting either skilled personnel as adaptable fighting potentials or human resources who appreciate the management principles of the company. Thus far, it appears that those who have secured human resources who appreciated the principles have succeeded, but expert human resources appear adaptable even skill is weighed more.
- While it is usually easier for the company to secure human resources during the listing preparation phase—since the company has enough money at that time, the business development phase may require more ingenuity because the situation usually becomes tougher.

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