

Looking from the Outside In

Tamio Kubota *Outside Board Member*

April 1972	The Dai-Ichi Kangyo Bank (currently Mizuho Financial Group)
June 1979	Master's degree in Business Administration from Yale University, USA
January 2001	General Manager, International Credit Supervision Department, The Dai-Ichi Kangyo Bank, Limited
April 2002	Tokyo Leasing Co., Ltd. (currently Century Tokyo Leasing Corporation)
June 2004	Executive Officer and General Manager, Corporate Planning Department, Tokyo Leasing
June 2006	Representative Director and Senior Executive Officer, Tokyo Leasing
June 2007	Senior Executive Officer, Tokyo Leasing
June 2007	Outside Director, Nissha Printing Co., Ltd. (current position)
June 2008	Outside Auditor (full-time), Takashima & Co., Ltd. (current position)

Failing to anticipate the highly erratic changes in the operating environment in fiscal 2011, Nissha was unable to respond as quickly as necessary to evolving conditions. Downward pressure on sales prices, compounded by plummeting sales volumes, was undoubtedly the direct cause of losses, but I believe, at the root, the biggest problem was a high cost of sales ratio—essentially, a high break-even point—and diminished production efficiency.

On the marketing front, Nissha could not gather sufficient information regarding fluctuations in orders and thus its ability to analyze the situation was inadequate. On the production and procurement front, the Company fell short on efforts to enhance production efficiency for the following reasons: it lacked the know-how and technologies, and it did not have the drive to raise production efficiency, which would boost product quality and the efficiency ratio, and keep inventory at the right level. Consequently, it was impossible to adjust production to prevailing circumstances. In addition, there was no organizational structure in place that would intrinsically link production, sales and inventory issues, and while emergency measures were introduced to correct the situation, they required more time than the Company had in the fiscal year to deliver the results management was hoping for. Inevitably, excess inventory piled up and a large loss was booked. Maybe Nissha would have shown losses anyway, but I believe that if the appropriate structure had been in place, the damage would have been less extensive and recovery would have been quicker.

When the cost of sales ratio is too high, the break-even point is also too high. For Nissha, this is a critical issue that must be addressed if the Company is to return to the black in fiscal 2012. An improved efficiency ratio, a scaled-back supply chain, and time- and cost-effective procurement are the keys to production efficiency and, by extension, a lower break-even point. Nissha is working to reduce fixed and variable costs and boost efficiency. Everything is up for review to achieve these objectives. There can be no sacred cows. It is not enough to establish strategic and tactical policy for this purpose, to create a horizontally connected structure or to interpret a situation from a qualitative perspective alone. Quantitative thinking, defined by numbers, is essential.

In fiscal 2012, Nissha needs to use the prevailing emergency measures as a springboard to forge a flexible and speedy production structure and, thinking laterally, management should reevaluate asset holdings and pursue zero-base cost reduction while refining its ability to accurately predict the sales trends among the Company's customers.

Medium to long term, I would like to see management revisit the competitively superior technologies in its corporate arsenal and take decisive action about which fields to further develop and which fields to break into.



Internal meetings, including those of the Board of Directors, are conducive to discussion and decision making, and I see no issues from a governance perspective. The management's stance and directives permeate the Company top-down, with top management initiating the process. However, as far as the bottom-up process—whereby employees can offer suggestions to management—is still to be initiated.

I believe middle management has gained new awareness, but I wonder whether there is actually enough organizational leadership, and does this leadership have the drive to take the Company forward? The job requires expertise to head up an organization—that is, to lead a team, not to run a one-man show—and the credibility, lead-by-example behavior and personal charisma of a leader.

Problem solving is a two-way street and there may be internal circumstances to consider and certain steps in the process that may not be so easy to carry out. I know very well that finding solutions is difficult. But if problems are pushed aside, forgotten or ignored, they will inevitably resurface and the situation could be much more troubling. Whatever the issue is, it must be addressed for the Company to move forward.

I think Nissha has to cultivate more of a culture in which people are not afraid to take action, and be willing to take the punches that may come by facing situations straight on. I think there are still many people who passively wait for direction from above instead of taking the initiative and doing or saying something to fix apparent issues.

From my perspective as an outside director, I see issues that those on the inside have yet to acknowledge—perhaps they choose not to, or are simply unaware—and I feel somewhat guilty for my stark analysis of how management is doing its job.

Nevertheless, I hope that these frank and honest comments will make management stop and think a moment and then, with a more balanced perspective, work to implement changes for the better.



Kenji Kojima *Outside Board Member*

<i>April 1970</i>	Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)
<i>June 1975</i>	Received Master's degree in Business Administration from the Kellogg Graduate School of Management, Northwestern University, USA
<i>March 1979</i>	Completed Doctoral program in Graduate School of Business Administration, Kobe University, Japan
<i>March 1985</i>	Visiting Scholar, Yale School of Management, Yale University, USA
<i>September 1988</i>	Visiting Scholar, School of Engineering, Stanford University, USA
<i>January 1993</i>	Visiting Scholar, Department of Economics, Harvard University, USA
<i>July 1993</i>	Visiting Scholar, Center for Operations Research and Econometrics, Université Catholique de Louvain (UCL), Belgium
<i>May 1999</i>	Professor, Research Institute for Economics & Business Administration, Kobe University (current position)
<i>June 2008</i>	Outside Director, Nissha Printing Co., Ltd. (current position)

I am engaged in academic research on corporate governance and oversee the curriculum on corporate strategy for the MBA program at Kobe University. I am also working hard to monitor and supervise the execution of duties by Nissha management with an emphasis on maximizing corporate value, particularly shareholder value.

I think that the Board of Directors at Nissha has made steady progress toward building a more effective mechanism for corporate governance in a global context.

Nissha has many issues to address, both short term and long term, in establishing a sustainable, competitive advantage in the global market. Executive officers must be diligent in their collective efforts to effectively execute corporate and business-specific strategies and to efficiently manage organizational, financial and human resources.

Nissha employees must try to achieve personal goals as well as those of the organization, a pursuit that reinforces capabilities. Human resources development is a priority for long-term growth. Other management priorities include improvements in quality control, cost planning, and management and supply chain management.

The operating environment has changed far more dramatically than we could have anticipated. Current conditions make it difficult to grasp market direction and hinder management's ability to pinpoint a course of action appropriate for the times. I have made a concerted effort to identify business trends and the specific impact that such trends might have on the Company. I have also endeavored to anticipate changes that might subsequently impact the operating environment and have guided executive officers in selecting suitable approaches based on these predictions.

I believe that Nissha must focus on developing its capabilities, particularly the skills of its human resources, to sustain long-term growth in corporate value. The Company still has a long way to go before reaching its goal of becoming a globally competitive company.

