

SANGIKYO THE OPTIMIZATION COMPANY

A Brief Introduction



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Introduction

This short overview is mainly about how the Sangikyo Corporation successfully adapted to the rapid changes in the telecommunications market over the past decade and managed to prosper in the process. It is also a story about how Sangikyo's CEO, Michiyasu Sengoku, applied the communications principles of core competence for wireless signal optimization to the company's entire management system using information technology (IT) applications.

The essay also outlines how, with vision and determination, Michiyasu Sengoku moved his father's engineering services company into a digital consulting services business. Finally, the essay outlines how Sangikyo avoided company acquisitions and outsourcing as a growth strategy and transformed itself using innovative knowledge management and business intelligence tools.

Sangikyo is today a \$100 million medium-sized Japanese company. The company does business in three domains—it provides wireless network services to telecommunications companies; it provides engineer career development services to major Japanese IT firms; and it is beginning to provide knowledge management (KM) services to firms needing to bring their companies in line with 21st Century business practices.

In September 2007, a new book explaining how Sangikyo developed its knowledge management services was published by CEO Michiyasu Sengoku. This book outlines how Sengoku turned Sangikyo around and what this means for higher value added corporate performance.

In the book, CEO Sengoku writes, "In each phase of our corporate effort to solve problems, we have found that the key to survival has been to work faster and smarter. We also discovered that the corporation's wealth was in its employees. The story of how I arrived at this thinking and how we developed optimization services is outlined in my new book."

He goes on, "Today, we call Sangikyo the "optimization company" because we believe that we have figured out how to optimize the peak performance of our employees. Today, 20-40 percent of our profit comes from enhanced employee performance. My new book is about how we used a combination of business intelligence and knowledge management to accomplish this task. In doing this, we have streamlined our top-down corporate organizational structure and enhanced across-the-firm horizontal communication using knowledge management tools. We call this the "VH2O dynamic management model." VH2O means Vertical-Horizontal Hybrid Organization. Doing this has allowed us to build a more efficient and profitable company, a company more in tune with the corporate demands of the 21st Century."

Sengoku concluded saying, "This book is also about the vision, leadership, innovation and IT applications that made this transformation possible. How we did this was perhaps not unique. We did it through internal investment and trial and error. What is unique is that by going through this internal reform process, we now have products and services that can help other companies be as successful and profitable as we have been."

By overcoming its own inefficiencies, Sangikyo developed business services that can be applied by its customers. Sangikyo's new corporate slogan is "Enabling People to do More." Sangikyo's network integration services help telecommunications firms optimize service to their customers. Sangikyo's engineering career development services helps Japanese firms with cumbersome employment practices meet their surge needs for engineering talent. And Sangikyo's new dynamic knowledge management tools help Japanese firms overcome their poor departmental communications abilities, lack of work documentation, and lack of strategic planning.

One reason that Sangikyo has been able to build its "optimization services" around the weaknesses and inefficiencies of Japanese corporate culture is because the Sangikyo leadership has been willing to tap into a broad range of domestic and foreign management techniques to improve business performance.

THE SANGIKYO CORPORATION

The Sangikyo Corporation is a privately held company of the Sengoku family. Sangikyo was founded in 1965 by Hideo Sengoku (1917-1995), the father of the current President and CEO, Michiyasu Sengoku.

Michiyasu was born in Manchuria on February 14, 1943, attended Keio University in Tokyo, studied at San Jose State University in California, and joined Sangikyo in 1990 after a successful career of 23 years with the Sony Corporation. Sangikyo's founder, Hideo Sengoku was a telecommunications engineer with the Manchurian Rail Road Company in China during World War II. After he returned to Japan, he founded the Sanwa Denki Company, which focused on field engineering, electrical component production and equipment maintenance. A good deal of Sanwa Denki's work was providing American military installations with telecommunications infrastructure. In 1965, Hideo founded the Sanwa Denki Gijutsu Kyoryoku Company. The name of the company was changed to SANGIKYO in 1985. Sangikyo in Japanese means SAN (three) GI (technologies) KYO (cooperating). The Sangikyo name refers to the interaction of three communications technologies--wireless, transmission and switching.

Between 1975 and 1985, the company focused on overseas satellite and microwave communications business. By 1990, when Hideo's son Michiyasu

Sengoku joined the company, the growth of the mobile phone business was putting pressure on the company to upgrade its engineering and technical skills.

Michiyasu became the President of Sangikyo in 1992 and he gradually moved the company into new areas of networking, systems integration, and a variety of knowledge business optimization services. Under Michiyasu's leadership during the last 15 years, Sangikyo has become a widely respected, independent engineering and telecommunications services company serving a broad range of domestic and foreign customers.

Before Sangikyo's financial turn-around in the mid-1990s, the company's organizational culture could be characterized as reactive, compliant with external standards, lacking in self-confidence, weak in professional engineering skills, and out-of-touch with customers. Sangikyo was your classic Japanese sub-contracting firm dependent on large corporate contracts.

Things had to change if Sangikyo was to survive. Formulating a new business model required three basic reforms: (1) changing how employees thought about themselves and their customers, (2) modifying the traditional business mentality, and (3) top-to-bottom organizational reform.

Michiyasu Sengoku's new book is focused on his management philosophy and his vision for transforming the Sangikyo Corporation. Michiyasu (or Mitch as he is known to his non-Japanese friends) has qualities that would be respected in any CEO. He has guided Sangikyo's transformation using two core principles--greater direct contact with customers at all levels and a fuller utilization of Sangikyo's own corporate human resources. Sangikyo's 1000 employees are the pride of the company—they are smart, loyal and hard working.

Sengoku quickly realized that to improve the staff and serve customers better in a highly competitive market required adopting the knowledge management tools that most Japanese companies have been slow to develop. Sangikyo's current success is from workforce productivity improvement and greater financial efficiency.

In practical terms, this required motivating the employees by setting new performance incentives. For that purpose, Sangikyo's President, Mitch Sengoku started by introducing annual corporate slogans like progress, customer satisfaction, trust, globalization, and synergy. It also meant that Sangikyo had to be more than simply a subcontractor to the NEC Corporation, its largest client.

This also required the introduction of new pay-for-performance standards, the computerization of corporate activities, and changing the management and board of director functions. New challenges required new organizational responsibilities.

What Sangikyo has done over the last decade is consistent with what many medium-sized firms in Japan have done to survive and establish their independence. It had to limit its sales to a single buyer to less than 20% of total sales; start new product research and development; forge new business alliances; employ better qualified engineers; and create information and sales networks that would generate new higher value-added business.

Sangikyo's Corporate Philosophy and Mission Statement

The Sangikyo Mission is to support and encourage optimal performance at all levels of corporate activity.

Sangikyo's most valued asset is its employees. Employee well being and happiness are the sources for the prosperity and progress of the corporation.

Innovation and progress are grounded in the sharing of wisdom and through the diligent application of our human resources.

Corporate Social Responsibility

Treat everyone honestly, fairly and with respect
Honor the rights of and support the development of our employees
Provide excellence in service and products to our customers
Develop value for shareholders and ensure good corporate governance
Contribute to the prosperity and improvement of humanity
Comply with financial and legal codes where we do business

SANGIKYO'S TRANSFORMATION

Under Michiyasu Sengoku's leadership, Sangikyo has gone from a stolid, traditional contractor serving a single customer to an innovative enterprise employing some of the best practices of new business. In 1990, Michiyasu Sengoku left the Sony Corporation, took over the family firm and hasn't looked back. At Sony, he faced a variety of management challenges and he learned a great deal. He says that he admired "the Sony leaders Akio Morita and Masaru Ibuka for their creative management, guts and openness to change."

Michiyasu Sengoku recalls how in 1990, when he joined Sangikyo, "We were just engineering sub-contractors. Our employees had no independent accounting or

business management ability. Sangikyo has since broken that sub-contracting chain and now deals with customers at all levels in the business chain. That gives the company a good sense of the whole market and that in turn improves its engineering process capabilities. Knowing the end-users also allows Sangikyo to help customers solve their problems directly. This has put new demands on the company and forced it to be innovative."

Sengoku's business philosophy after 2000 was to welcome change and bring new talent into the company. Sangikyo also provided its staff with computer training, gave employees home-use computers, and restructured the management system to provide new performance incentives.

MICHIYASU SENGOKU: THE MAN

Having a corporate vision involves seeing the whole picture, deciding what needs to be done, figuring out how you will grow the company, and committing to goals. Vision is often personality-based. A good part of Michiyasu Sengoku's business sense comes from sports--his days in judo practice at Keio University. He likes competition and figures out how to use the strength of others to his own advantage. He still supports judo clubs in Japan and judo remains one of his passions.

Some of his thinking comes from his days with Sony in the US observing how the US market operated. Sony was a pioneer company in electronics and Sengoku has tried to apply some of the techniques he learned at Sony at Sangikyo.

As part of his strategy for modernizing Sangikyo, Michiyasu Sengoku started attending international meetings, joined seminars at the Keio Business School, met with Japanese business leaders and searched for fresh ideas. Gradually, he also restructured his management team so that Sangikyo could devote more time to strategic planning and new business development. He also introduced annual brainstorming seminars to challenge the way the corporate leadership thinks.

Changing from within was not easy because of the traditional Japanese cultural preference for consensus building, the risk adverse bureaucratic corporate processes, and the use of overpriced insider suppliers.

Sengoku is also comfortable with the idea that Japan, right or wrong, has its own way of doing things. He enjoys the tea ceremony, studies with Japanese management gurus like Kenichi Ohmae, and is a collector of Japanese pottery. He also believes that Japanese companies have to be managed in culturally acceptable ways. Being able to blend Japanese ways with the needs for innovation has been Sangikyo's formula for business success.

Over the years, Sengoku has also developed some guiding philosophical principles. He believes in collaborative management—he wants to be there when people need him. Empowering others to lead is often more important than company profit. He aims high, but believes that success comes from dealing with the details one-by-one. He observes patiently, listens to what people say, and then tries to figure out how this information can be translated into something useful. Life is no bed of roses, but Sengoku believes that work and life should be as enjoyable as possible. Finally, he is humble. Like any good manager he tries to surround himself with people who are all smarter than he is and he benefits from digesting and using their advice.

THE OPTIMIZATION COMPANY

Sangikyo currently characterizes itself as the “The Optimization Company” in all of its corporate literature. It even has a “star-shaped” logo as part of its new corporate branding and identity.

Optimization” at Sangikyo, at least between 1965 and 1988, meant perfecting the transmission of wireless signals—the optimization of communications signals for radar and telecommunications. IT investment in those days was seen as useful in producing new value-added products

As the mobile telecommunications business grew between 1989 and 2001, Sangikyo expanded its optimization engineering services into the areas of cell phones signal quality, electronic highway toll booths and a broad range of wireless network solutions. IT investment at this time grew to include communications—IT became a strategic tool for improving the company’s “core” competitive position.

This was also when there was foreign pressure on Japan to open its telecom market to international competition. This gave Sangikyo more freedom to work with overseas companies like Motorola and put Sangikyo directly in contact with a whole new range of customers

This also opened the door for Sangikyo to work with the US Sprint Corporation in their effort to enter the Japanese market in 2000. At this point Sangikyo had to deal directly with top officials at the Japanese Ministry of Posts and Telecommunications. Sangikyo was now working with Japanese policy makers and gaining access to valuable market intelligence. Eventually, this led to Sangikyo turning its attention to the emerging China telecom market and the establishment of its Shanghai Sangikyo operations.

As the telecom business began to show signs of maturing around 2003, Sangikyo shifted its knowledge of network optimization to business practices and

new knowledge management (KM) resource systems. Recognizing the business inefficiencies of Japanese firms, the growing importance of outsourcing, and the increasing brain drain from an aging work force, Sangikyo added fully integrated corporate management applications to its IT and communications capabilities.

Fortunately, for several years, Sangikyo had been experimenting with website designs, website applications for the resale of construction project materials, and ways to capture in digital form the experience of overseas projects. Most of these efforts failed, but Sangikyo’s engineers gained a great deal of experience in IT applications—experience that has served the company well more recently.

In this learning process, Sangikyo experimented with software purchased from overseas, applied competitive intelligence methodologies to corporate analysis, and experimented with performance analysis techniques that eventually led to an analytic technique called PBT—performance breakthrough technology. PBT combines the analytic tools of competitive intelligence with the brainstorming and war gaming techniques of the US military. It is a powerful analytic tool when applied to business analysis.

PBT is then integrated with an online Cyber Manual (CM) system of knowledge “visualization” and information “sharing” capabilities across the firm. This revolutionary CM management system provides managers with the tools for achieving open management, excellent internal communication, an increased capacity for business growth, and high levels of customer satisfaction.

All of this is then incorporated into Sangikyo’s technology platform and communications services to provide web-based knowledge management services for the entire firm.

Today, Sangikyo is still a leader in its “core” telecommunications engineering business. It is also retraining and upgrading its engineer talent. And it is increasingly recognized as a professional engineering service enterprise that uses knowledge management tools to optimize corporate value, service and delivery—thereby providing customers with high quality performance.

Sangikyo’s current business Optimization is the “know-how” for calculating the best possible utilization of resources (people, time, processes, equipment, raw materials, supplies, capacity, etc.) needed to achieve a desired result. It improves the speed and quality of decision making by providing businesses with responsive, accurate, real-time solutions to complex business problems. This Optimization-Ware is synonymous with reducing costs, increasing productivity, and improving profitability. Optimization also dramatically improves business flexibility and responsiveness to rapidly changing circumstances.

In 2007, everything came together and all of the management changes that had been put in place began to yield results. 2007 has been a break-through year for

Sangikyo! Corporate profits are up, new digital management services are ready for market entry, and corporate branding is yielding results.

Sangikyo's new IT products have been featured in business magazines and newspapers. And in October 2006, the Japan Ministry of Economy, Trade and Industry awarded Sangikyo its top prize for "IT Executive Management." This award recognizes companies that are leaders in IT applications and establish business models for other firms to follow.

The future promises to be an even brighter as the sales of Sangikyo's new Optimization-Ware services start to expand.



In October 2006, the Ministry of Economy, Trade and Industry awarded Sangikyo with the top prize for IT innovation