Kimura Dreamvisor Newsletter Summary 7th December 2006

Performance based evaluation and bullying increase.

Excessive target weakens appetite

Companies after tax profit increase is the most pleasant event for an equity investor. However reducing anticipatory investments for the sake of short-term target is not appropriate, neglecting research & investment effort or staff training becomes a serious problem. There are countless examples of companies that felt into a bottomless pit after reaching an all-time high.

10 years ago companies' top management bowed to market pressure applying performance-based management. This is called bottom line valuation management. The bottom line is defined as gross profit showed at the very end of any financial statement. As it is directly linked to earning per share it serves as a basis for stock price formation. By the way sales are usually stated at the very beginning of any financial report therefore called top line.

Since late 90's financial crisis the very existence of non-profitable companies have been set in doubt. Since any company's fate is directly linked to its ability to secure profit companies started to cut costs as a united body. However although economy recovered and earnings improved substantially research & development investment was constrained, employee's workload and responsibilities expanded but salaries did not go up. Said in other words at employees level achievement feeling or well-being improvement perception vanished. Each individual, each department is severely tied to targets accomplishment. Sharing and maintaining a long-term vision for the whole organization became very difficult.

The 'sport team spirit' decreased sharply in business and twines closely with the trend of the times. Even in companies considered as excellent employees increasingly feel uneasy and suffer some kind of 'burnout' syndrome. In my view the ' let's challenge it again' spirit gave way to a negative psychology such as anxiety or 'throw away the towel mentality', this is especially true for companies or individuals belonging to the loser's pack. Whatever category (winner's or loser's) they belong to, adults have just lost this pioneering spirit. Children accurately foresee adult's appearance and in turn this is reflected in their behaviour. A widely shared dissatisfaction has led to bullying increase.

Industries are unified organic bodies, even if earnings improve temporarily this does not necessarily lead to long-term prosperity. In order to be responsive to outside environment changes a common adhesion to the organisation is necessary. Self-improvement Achievement is insufficient and staff must also participate to colleague's improvement. However performance based evaluation has gone too far and appetite has gone. Children also feel the pressure of 'survival' academic achievements and entrance examinations race, this in turn shapes potential bullying exit mentality. I think that youngster's loss of ideal brings a childish mentality.

Companies increasingly prefer to stay private rather than go public

Japanese companies have been expanding their horizons, between 70's later half and late 80's US-Japan management comparison was very popular. US companies top management emphasized quarterly earnings reporting and lost long-term investment priorities. US management style emphasizing quarterly earnings has been put in question due to stock market pressures and it was assumed that rivals like Japanese companies emphasizing mid to long term management passed it.

The truth is that many Japanese companies increased their position in an exceptional way applying mid to long term strategies but despite lax management inherited form goldilocks times real problems did not appear thanks to Yen weakness bonus.

When bubble burst, problems resurfaced instantly and the core reason became crystal clear: a severe lack of decision capacity. As a result shorter cycle monitoring necessity was recognized and US style quarterly statement spreaded fast. This objective valuation flow finally came into the hands of market participants such as analysts. Markets have a strong tendency to react hysterically to information at first stance and usually have no consideration for quick judgment consequences. In addition market's appreciation of extremes is usually excessive when it comes to bottom or ceiling. Even analyst's vast majority limit themselves to chase surface data but have not any clue about management ultimate policy.

(7202) Suzuki motor for example increased investment in research and development and due to the large depreciation registered a sharp fall in the stock price. This is a typical example of market short sightedness. The management despises such partial outside views. It is certainly this kind of market pressure impacting management policy that pushed top class industries like World or Skylark to return private. Quarterly earnings statements impact on companies' long-term policies has become a serious problem. I personally believe it is much more appropriate to coolly set up own strategy and implement it brushing away such a noisy background. I am convinced this trend should strengthen. Companies running into performance based management are bowing to market pressures but this may actually lead to the reverse effect; employees feeling the 'burnout syndrome' may run against stock profit in the long term. Companies must set up appropriate long-term strategy focused IR policies in order to eliminate the myopia some analysts and investors easily fall into (to a certain degree). To a certain extent short-term profit can be sacrificed in order to fully carry out anticipation management and deliver earnings distribution to protect employee's morale.