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Interview: How Will the Corporation Management Change?

01 Isao Nakauchi

(Chairman and President of Daiei)



Isao Nakauchi

Born in 1922. After graduating from Kobe Commerce High School (currently Kobe University of Commerce), he entered Kobe University. He started a medicine retailing business and founded Daiei Group. He is Vice President of Japan Federation of Economic Organizations and Chairman of University of Marketing and Distribution Sciences as well as CEO of Daiei.

Editor: This new magazine called "Business Insight" will be issued. We are planning to invite Japanese representative managers in each issue and ask them about their corporation management.

In this first issue, we invited Chairman Nakauchi. Thank you for making time and coming to Kobe University for this.

The business world is changing rapidly. So I would like you to tell us about how you see the world future, how the corporations should be in such world, and how the people at the middle level should be. This interview will take the form of a discussion between Chairman Nakauchi and Masaki Tamura, Representative of Research Institute of Advanced Management, who specializes in the distribution industry.

The main readers of this magazine, we think, are section managers who are aiming to become business elites in the future. First of all, I would like to ask you about the

future of these people.

Nakauchi: Doesn't the word *business elite* sound a bit old? I wonder if we need business elites or not in the future. I think what we will need to manage a corporation in the future are people at the top management who make decisions, and computers and some part-time workers. Will we need elites then? What do you think elites do?

Tamura: The business elites are a group of the next top management. As you said, a corporation might be managed by people of the brain division and of the operation division. But I think corporations will still need technocrat business elites to support the top of the corporations in various situations as the future top management and as the staff who actually have to manage their business. What will happen to those people in the 21st Century?

The Society that Gives Opportunities to People in Their 40s

Nakauchi: Those people who are in their 40s, like the current American President, Clinton, actually can work best. So if a company is operated by those employees who came up to their position on the basis of seniority but cannot do much, the company will have to disappear. So those who are in their 40s can work. So an issue here is what people can do in their 40s, isn't it?

Tamura: It is very difficult for people in their 40s to be top management in Japanese big corporations, except those so-called family-owned companies. If the companies are salaried-men oriented and have nearly a hundred years of history, it is nearly impossible for people in their 40s to become the top. It's it true?

Nakauchi: Such corporations are the problem. We only have such companies; it is very hard for us to change the structure of the industries dramatically. Japan has to change it dramatically. We don't have any big factories with chimneys in this small country. Horizontal division of work with other Asian countries is necessary. In such times, I wonder if those companies could survive in the 21st century and also in this global era with the old top management in their 60s or 70s.

Tamura: In such corporations, what should be done in order to set up a system to create top managers in their 40s?

Nakauchi: We must make people who have many followers even though they are in their 40s. Official notification of appointment (in other words, “the position”) is not something people give. Official notification of appointment should be given by their subordinates saying "He is my boss". It is not the appointment of the Cabinet members by the Prime Minister. The trust of the people is necessary.

Those who did the Meiji Restoration were in their 30s, and there were few people in their 40s. Because they were in their 30s, they could do such a big thing. People in their 60s or 70s tend to be conservative. So all they could do was *Taisei Hokan* (the return of political power to the emperor). Or they also could do something like *Haihan Chiken* (the abolition of clans and establishment of prefectures)

Editor: The society has been stabilized and the structure of the authority has not been changed much. So the elders have become the center of the society. As a result, there is an issue that the society cannot renew its system.

Nakauchi: It is the safest.

Editor: The reason why the Japanese economic society was re-energized after the war was because elder people at the top were purged. And the whole society was in confusion, and in that time young businessmen including Chairman Nakauchi showed up. Do you think it's possible to make such a thing happen again?

Tamura: One of the reasons why people in their 40s and in their prime cannot be the top is the centralization of the authorities in Tokyo. The longer you work and the more people you know, the better business you can do. That is the key. Therefore, aged people are needed to do business.

Nakauchi: The government offices are obsessed with Tokyo University, so the graduates from Tokyo University have many connections in the government offices. They should do something with this obsession with Tokyo University. All the other universities in Japan have become mini Tokyo University by having Tokyo University as their parent university based on a standardized test. If they want to be Tokyo University, just make them branch schools of Tokyo University, such as Kobe school of Tokyo University.

If ideas and planning that people come up with are all similar to each other, people's enthusiasm is only evaluated by the number of people they know, the number of times they have been to the government offices, or the number of a stack of business cards. In other words, it means that all the plans they come up with are not innovative. In this sense, the problem is the poor quality of their plans. And also the system which cannot accept the innovative ideas is a problem.

Tamura: What about inside the company? You cannot just wait for people who will be the next top to appear. You have to train. If so, you have to provide them some kind of preparation stages when they are in their 30s. It is necessary to have a training system to train people as next top management, and the system needs to train their general management sense of people, things, and money.

Nakauchi: In such sense, the seniority system will disappear. We need to increase our mobility in the Japanese society. People should not stay at one company until they retire but they need to change companies based on their job. Those who have special abilities would change their companies three or four times.

Our professional baseball players renew their contract every year. It is the same system as in America. The Japanese business world has to be changed into such contract-based society.

Individualism and Totalitarianism

Editor: It is the American individualism, isn't it? By taking this path I am sure we will have new corporations, but on the other hand, no one will commit themselves to their companies. As a result, the companies will weaken. In Japan, those elites were strongly committed to their companies. That was Japanese strength. Do you think it is okay for Japan to lose such strength?

Nakauchi: I wonder if we could expect such commitment in the 21st century. "For the company" will be obsolete words. The society will have no choice but change its direction so everyone can do whatever they want to do. In Japan as well, lifetime employment and seniority system will disappear soon or later.

Editor: The American society is developed not only by individualism but also by participating in and contributing to their communities. But after the 60s, individualism became stronger■1. Apparently, there is a problem such as that when a company is in crisis, the president of the company leaves the company before anyone else does. I think business schools played a part of it, but I think that it is not a healthy society if these elites only pursue individualism and do not contribute to the communities or the organizations they belong to.

Nakauchi: “Noblesse oblige” is differently required■2. When the top forgets about this, you will have problems. It does not matter how well people can work, they have to gain trust as a human from others who truly say “He is my boss”.

We work in Hawaii. The bankers in Hawaii not only work for their bank but also for the community or church. People in Japan have only one value. That is company. That is the problem. It is necessary to have various different values and take responsibilities in each organization they belong to. We need excellent companies. But we also need good corporate citizens.

Tamura: As business scholars, an issue we have to think about is a company as a system in the human society. There are two ideologies in order to set up this social system. One is an ideology that creates a company based on individual interests. Another ideology is to create a company based on contribution to the whole. Mao Tse-tung failed an experiment to make a society considering the public. And making the society based on personal interests makes various problems as well. I'm sure somewhere in the middle there is an answer. I think the strength of a company system is to organize a company in various ways by combining these two ideologies without getting biased by one.

Nakauchi: In a sense, I think the problem lies in the balance between individuals and the whole. For example, the reason why medical science decayed is the fact that they thought they could know the human body by dissection of a dead body. It is a dead body, not a living body that they would understand by dissection of a dead body. I think in business administration as well they are dissecting a dead body and not investigating a living body.

Tamura: You mean that we could know the structure but not physiology.

Nakauchi: You would not be able to know such an issue as spirit, as I said just now, by dissection of a dead body. I wonder if current business administration is becoming like dissection of a dead body. I wonder if it might need to have more of an interdisciplinary view. I think academic subjects also need to change.

Tamura: Business schools nowadays are changing. At least, the business school of Kobe University^{■3} has changed. If we analyze the success of Daiei in the past, that is just another dissection on a dead body. What we are trying to do is not that.

■1

In terms of the changes of American individualism, please refer to "Habits of the Heart - Individualism and Commitment in American Life", Robert N. Bellah, (Translated by Susumu Shimazono, Keishi Nakauchi), Misuzu Shobo, 1991.

■2

Noblesse oblige: Obligation of people of high rank or social position in morality

■3

The Department of Kobe University started a two year business school (Japanese Corporation Management Major) in 1989.

History and Viewpoint

Nakauchi: History is important. For example, if you are a doctor, you would have to know the environment a patient had lived in, the medical histories of the patient's relatives and so on. It is because you just couldn't diagnose just by exam results.

Tamura: In what you just said, the important thing is a future-oriented viewpoint, which was treatment. It is important to look back the history in a viewpoint that what we are going to do now.

Nakauchi: History is made from the current viewpoint. The recorded history of the

Meiji Restoration is a history made by the one side viewpoint of the government army. The important thing is to stand on that viewpoint. If you want to know what a company is trying to do, you have to stand on its viewpoint, and look at the company and research the techniques and resources of the company.

Tamura: It is to look at the past in a viewpoint of what we are going to do. Business administration is an academic subject about the future possibilities.

Nakauchi: Business administration has changed, hasn't it? My generation only knows business administration of Mr. Yasutaro Hirai^{■4}.

Editor: By the way, in terms of that viewpoint, the problem is how we can create a viewpoint to the future. As a teacher of business school, I think teaching history or philosophy is very important for creating a viewpoint for the future, I think. I think studying classics like Weston philosophy and Eastern philosophy would have been more useful rather than business administration in a viewpoint of education at business school. I was at one of your seminars about *The Book of Flowery Tradition*. The students were those who would be the core of Daiei in the future, weren't they? What was your aim?

Nakauchi: Wasn't it "The Flowering Spirit" of Zeami? It was exactly from the future-oriented viewpoint. Our assignments are not only to come up with solutions to the current problems but also to seek possibilities of future businesses from complaints of the current consumers. But if we are three steps away from now, we will fail. It is about how to know what happens a half step away from now. It is what we call a "life advising company". As we just want to sell products, discount stores are good enough. My aim was to know this life culture deeply.

■4

A leading scholar of Japanese business administration of the early years. He had taught since 1920 at Kobe Commercial High School, Kobe University of Commerce, Kobe University of Economics, the predecessors of Kobe University School of Business Administration, and Kobe University School of Business Administration. He established the first department of business administration in Japan at Kobe University. He greatly contributed to the development of business administration in Japan.

Life Advice that Corporation can Give?

Tamura: I think life advising is a very interesting concept. It is when a corporation gives consumers life advice but the consumers also have their own life experiences in their actual lives. Japanese consumers in particular have a social connection, so the consumers have relatively large amounts of information. In fact if you compare the product knowledge between the consumers and shopkeepers, the consumers have more knowledge. They get information from magazines and from other consumers. In such circumstances, in relation to life advice, what advantages does the company have against the consumers?

Nakauchi: The companies should give scenes of life. Maybe the consumers have more information about products. What a company can show are scenes. The company should suggest many different life scenes in the matrix of the lifestyle and life stages. For example, if the consumers want to drink afternoon tea, the companies can show how they can drink, how they should set up the table, and what they should do when they have visitors. It doesn't matter how hard we recommend afternoon tea as an individual product, because the consumers just think, "There are many different kinds of tea." That is it.

Tamura: Recently there are many information magazines for consumers. And the consumers accumulate information about daily life every. The amount of information is enormous. What is the foundation on which the companies can give life advice?

What kinds of information styles can the companies make in relation to the corporate know-how, ways of modifying information, and ways of given information? In marketing, people say that we have to take in the needs of the consumers. But it is not enough. For example, if that was enough, Walkman wouldn't have been invented.

Nakauchi: Corporations produce and sell "products". But I say that we have to produce "things". That is, we are required to have an idea that there are "things" as parts of life scenes. We have to quit producing "products" and start competing by advising in producing "things". If we only compete by producing "products", we only have a price war of them with the same quality. This ability to give advice on life scenes is a characteristic of the company. So the consumers can choose a lifestyle from various

characteristics. That becomes wealth. And then, the consumers should be able to get out of poor thoughts such as that we purchase a piano because our neighbor purchased one.

Tamura: The difference between good corporations and bad corporations is whether or not they can blend the concepts that the top has into the operations. When the top says life advice, the directors, department managers, and section managers also say life advice. And they leave the actual operation to the people working with the consumers. That doesn't work. The middle class managers must have the ability to translate it into the operation; otherwise, it doesn't work.

In a company, in the process of figuring out the way of translating, the employees were ordered to take about 1000 pictures of the bathroom. Then, they realized there was ecology of products in the bathroom. When new products were introduced, old products were taken away. Also, the products had their own places to be placed. When thinking life scenes, we need to have different ideas from the past such as ecology, which is a visually imaged idea. Japanese corporate information style in the past was mainly encoding such as POS■5 data. But to get visual information, individual life experiences become more important.

There is an interesting story in that point of view. The top in a company ordered the middle class managers to target a rich market whose annual income was more than 20 million yen, but the average annual income of the middle class managers was 8 million yen. The managers asked the top, "Please increase our annual income to 20 million yen while we are working on this project". But the top told them, "Humans have imagination".

Nakauchi: That was a problem because they saw the market as a rich market. They should have looked at the lifestyle of rich people. They should have looked at it regardless of their annual income. As the example of the bathroom, they should have looked at the way people thought about the bathroom.

A big problem here is that information and advertisement have no difference anymore. It has become difficult to make a difference between information and advertisement, even at the postal criteria. Information has become more like advertisement and advertisement has become more like information.

■5

This stands for point-of-sales. It is a system that manages products information at the time of the sale.

Make Women Play Active Roles

Tamura: I think women are very important when we talk about visual life advice based on life experiences. I don't think Japanese corporations have realized how useful person women are. About 20% of our students are women at Kobe University School of Business Administration, but our female graduates are not used well. A few years after their graduation, we hear indignant complaints from them.

Some women try to live and work in the same ways as men do. This is a way of life, but they will lose the female advantage, such as knowing both how to handle family matters and work. If women do the same thing as men do, they will be separated from life scenes. So the problem is how to motivate such women in the middle of women and men.

Nakauchi: In jobs, there are some jobs that suit you and some don't suit you. Financial analysts in the American retail industry are female most of the time. Men and women have their own characteristics. I think women are more appropriate for interior designs even at a construction site. The 20th century was the world of men and we had a lot of wars. But the 21st century is the time for women and those companies that cannot let women play a great role will disappear. How many female professors do you have at this business administration?

Tamura: Zero.

Nakauchi: It is the head of department's fault. Maybe that's because the head of department is not attractive, isn't it?

Tamura: In grad school, the number of female students is increasing and I am trying to provide female professors... we need to have a good child care facility in order to have women in the work force, but we do not have enough child care facilities anywhere.

Nakauchi: That is because they will be held responsible for it. When companies try to make a child care facility but are held responsible for it, the companies will not do it.

Tamura: It seems like this has something to do with the issue of capitalism, more like Japanese capitalism that we talked about previously. Japanese travel agents always go everywhere with their customers on their overseas trip because of a clause. The travel agents have to take a responsibility if their customers are involved in an accident. The consumers are too spoiled in Japan. This prevents us from creating a new infrastructure in this time of change. It looks like they are trying to protect their customers but they don't do or they cannot do what is really necessary.

Nakauchi: When something happens, the government offices always give a report at the Diet to prove that they had already researched on it because of their tribunician way of thinking, Newspapers and other mass media encourage them to do so. It is necessary to clarify an individual responsibility and its responsibility system. Starting from the government, we have to get out all of the tribunician way of thinking.

Japanese society started from home, and home became a village. And the village became the corporate society. The village community was replaced by a corporation. At gatherings such as a wedding, coworkers from work do something and friends from the couple's universities sing their university song. That makes me want to say, "That is enough".

Distribution and Manufacturer

Editor: By the way, what kind the relation is there between the life advice of manufacturers and the life advice of distribution?

Tamura: The essence of distribution is to tie up different kinds of industries all together as assortment. Also it pays close attention to what kinds of products the customers purchase daily. It has a different type of information from manufacturers. The gap between distribution and manufacturers is getting wider.

Nakauchi: You are absolutely right. The manufacturers try to provide a wide range of

products. They try to provide from televisions to refrigerators of their brands. But the distribution industry can suggest a variety of combinations with products. For example, Sony's TVs are good, Toshiba's refrigerators are good, Mitsubishi's air conditioners are good and so on.

Editor: In that case, those people who actually deal with the consumers have to have good inspiration and ability to come up with what the consumers want. Falma, a company that became successful by systematizing small pharmacies, says that communication with the customers is the foundation for the distribution companies to exist. It also tells us not to believe POS. Even the manufacturers have such information on how many of what products are sold.

Nakauchi: That is what they do but it is not the mainstream of the world. We also don't believe in POS. It tells us dead information. Popular products disappear from the shelves too quickly for POS to track. What we need is this strong ability to give advice.

Editor: The manufacturers can give life advice based on their technologies. What do the distribution companies give life advice based on?

Tamura: They need to pay attention to buyers. The buyers have information from raw materials to products. Besides, they have information to integrate those products in the actual life scenes. The manufacturers do not have such people who can integrate information.

Editor: In the standpoint of the manufacturers, if the distribution industry starts having the bargaining power, the buyers start competing with their power instead of knowledge, and there is a possibility for the them to decrease their ability of information integration. In fact, department stores place themselves in the very place that is full of information, but the amount of information they stock is surprisingly small. That is because the consumers can return the products anytime. Does Daiei have such risk as well?

Nakauchi: One of the characteristics of the department stores is to provide a wide variety of products based on the consumers being able to return them. But we filter out products and provide them. The way of filtering out the products becomes the uniqueness of each store.

We have to filter out the products thinking about the consumers. I always say, "Don't make your store an irresponsible store where the customers have to choose products". The right way is that the customers buy the products we chose for them. Our stores would take all the responsibilities, even though the customers purchased the products with their eyes closed. That's what I say all the time.

Editor: The customers get confused if there are too many varieties of products to choose from. To filter out is the essence of the retailers, isn't it? It sounds like a very sharp sensitivity is required. By the way, we think that the relationship between the distribution and the manufacturers will be changed dramatically. For example, Benetton created a structure of "make the products with better qualities cheaper" by combining well the production and distribution, which they could not do by only distribution. In the technological progress including information technology, what do you think about a possibility of a new relationship between the retailers and the distribution companies?

Nakauchi: I read something about Order Management Cycle (OMC) in Harvard Business Review. The distribution companies have the largest amount of information because we are the closest to the places where the orders are received. In that sense, the big distribution industry is necessary.

The big distribution business was created to fight against the oligopolistic force of the manufacturers about 20 years ago. Even though the world has become the era of information, we have that largest amount of information of the consumers.

We have reached the level of knowing what products cannot be sold based on POS data. We need to set up an Order Management Cycle by taking advantage of being the closest to the orders. For example, the men's clothing section is getting close to that. So one day the time will come when companies who have the largest amount of information will become the leaders.

Japanese Industrial Structure

Editor: Until the First Oil Shock, the leader of the industries had switched, starting from coal to textile, chemistry and steel. For 20 years after that, only two industries,

automobile and electronics, kept the Japanese economy going. Until then, many new companies such as Daiei, Honda and Sony appeared, but after that there were no such companies founded. In the distribution industry, new companies such as Wal-Mart were founded in America and Sears was in history. But in Japan it has been always Daiei and Ito-Yokado.

Nakauchi: In Japan as well there are new companies. Scholars and mass media are too conservative to get to know new things. The era of the department stores was finished and now is the era of the chain stores. And even more, it is the era of convenience stores. New more companies are being founded at this end of century, before the 21st century.

Editor: However, these stores like convenience stores are run by the already existing companies. Totally new companies are not founded.

Nakauchi: That is because of a lack of mobility. We have to create a society where it is normal for us to quit the current company and to create our own company, as I mentioned at the beginning. We have to increase the mobility everywhere such as marriage, selection of work, houses and even at home. Before the war, it was normal for us to rent a house, but now people want own a house.

All current systems were taken in the economy after the war. There was more mobility in the Edo period. We should go back to that period. Rent a house and retire at the age of 45. That was the Japanese wisdom during the *Sakoku* (Japanese closed-door policy) period. We created shady cultures while reading *haiku*. Culture originally is shady. For example, *kabuki* is shady because men dress like women. And they drew *ukiyo*e (pictures of everyday life in the Edo period) out of shady kabuki and sold shadily nationwide. New things are created out of suspicious things. And this end of the century, we have to do more suspicious things rather than "pure, correct, beautiful" things. Because national universities do not have suspicious aspects, they will disappear.

Tamura: Culture of suspicious things is from Muromachi period.

Editor: It looks like there had been a difference between the culture of tradesmen and artisans in Kansai and culture in Edo but recently the difference is not so clear anymore, I think.

Nakauchi: Culture of Edo is samurai culture. Because of centralization of the authorities in Edo, feudal lords had to reside in alternating years in Edo in order to get subsidies or grants. Universities as well have to go to the Ministry of Education. Even universities cannot create changes without their own financial resources.

Editor: It looks like all the problems started from the systems between the war period and the postwar period. How would you draw a picture of change in such circumstances?

Nakauchi: I cannot really say anything radical due to my position. We have to put value on service. We have to get rid of an idea that we get 10% as service fee. Because we have such idea, all the services become alike. It doesn't mean anything if the service from Tokyo University and service from Kobe University is the same.

Tamura: We are trying to give a new service including this business school.

Editor: We also want to have a school building in Osaka. The top of the mountains is suitable to think deeply but we would like to keep our eyes and feet at the place close to business.

Time for Asia

Nakauchi: It is time for Asia from now. We can place our head in Osaka but we need to place our eyes, feet, heart, and body in South East Asia. It not quite similar to AFTA (ASEAN Free Trade Agreement), but we need to think with young people in Asia. Japan needs to improve itself in order to gain respect from other Asian people in terms of economy, culture and so on. We need to create an era of horizontal division of work, not an era of vertical division.

Tamura: There are many people who don't understand the intention of Daiei's Kyushu strategy■6, but it's logical if you think about Asia. Considering the geographical feature, Kyushu is a window opened up to Asia.

Nakauchi: Yes indeed.

Tamura: In Europe and Muslim areas, the foundation of integration is religion. In Asia, we are just close to each other geographically and we do not have any common foundations to integrate. We don't have religion as a foundation of integration. So what value is going to be the foundation of integration for Asia?

Nakauchi: We shouldn't think to integrate by common values. That is a way of thinking from the era of Columbus when they tried to propagate Christianity in the New World. It's not like that. We need an attitude to admire each other. Respect Chinese culture and Indochina's culture. We need to respect each other. Japan Federation of Economic Organizations talks about a Buddhist word, "*kyosei*" (live together). Even though we'll all be in severe economic competitions, we need to have an idea of "live together".

Tamura: It is an ecological balance, isn't it?

Nakauchi: It is not a way of thinking such as because of the lack of labor we get some more. We need to create a horizontal division of work well. We need to change the industrial structure in Japan too.

Tamura: But they had hegemonism in their countries such as China, didn't they?

Nakauchi: We must throw away hegemonism and colonialism. London still suffers from terrorism because of colonialism in the past. Japan, on the other hand, developed because we got rid of hegemonism and colonialism.

Tamura: Japanese multinational companies do not let the local people be in charge of their local companies.

Nakauchi: It is not only letting the local people be in charge of the companies but also localizing the Japanese dispatched to the countries. I always tell out employees who are going to be dispatched to overseas to buy into that country they're going to. They have to be determined as if they were going to satisfy their lives in that country. Cosmopolitans are not good. It is because they don't have any nationalities. It is necessary to think as the locals think, like President Fujimori

Tamura: But the headquarters is still Japanese oriented, isn't it?

Nakauchi: The headquarters should think about giving away its authorities to the local companies. It is now possible to get information of the local companies in the world by the computer technology, so the local companies should have some authority. Their headquarters in Japan should not decide everything.

Tamura: By the way, business in Asia should require a different mindset from the Japanese one. In supply of the Chinese apparel industry, the lead time is six months and the minimum lot is 10,000. It doesn't fit the Japanese cycle time. How would you set up a system of business that fits Japanese status quo?

Nakauchi: This system is being set up. It is necessary to know the mindset of Chinese abroad in terms of business in Southeast Asia. It is not about good or bad. We must know that; otherwise we cannot do business.

Tamura: My analogy of global business is handshake between the Gods. Ethical sense in business must differ depending on their cultures and religions, mustn't it? How would you integrate these?

Nakauchi: Its foundation is education. Study hard at university. It is education in a long-term and international viewpoint. We have to look at Asia.

■6

Daiei Group is in progress of a project to make a large baseball dome and shopping center in Fukuoka, Kyushu.

The Way of Thinking: B/S or P/L?

Tamura: I would like to ask you something in relation to the burst of the economic bubble. Until now, the companies were saying something like healthy-debt businesses based on the presumption that the price of land would go up. If the price of land wouldn't go up, we have to change the current way of thinking based on the balance sheet (B/S). In this cycle of the

dramatic market change, it is difficult to make a profit by land as companies' property. It is also hard to make a single year profit as a tenant. Apparently, 90% of tenants in a shopping center are operating at a loss. Under such circumstances, don't you think Japanese distribution companies should change the way of thinking from B/S to P/L (profit and loss)?

Recently, we have companies in suburbs of each prefecture because the price of the land is a third of the most expensive land in the prefectures. Their business plan is not going to happen, if they don't save their investment at the beginning. I think right now it is the time to shift from B/S to P/S way of thinking.

Nakauchi: It is depends on how each company thinks. In any case, the balance between B/S and P/S is necessary. They can focus on cash flow. They can focus on stock or paper profit as a going concern. They can think that lease may be cheaper or having their own building including depreciation may be cheaper. It all depends on how each company thinks. Considering the current static accounting in Japan, making a profit by leasing looks like a good idea. But I can't say which is better. As happened in the bubble economy, making a profit by repeatedly buying and selling land is a fake business and thus out of the question, but it is necessary to focus on stock.

In Japan, we cannot hire people when they are needed and lay them off once they are not needed. We must train people as the stock of the companies. Even if it means we have to send our employees to business school.

In our partnership strategy, we also have an aim that is to make use out of the stock of people. We decided to have a partnership with Recruit because we were attracted to 12,000 people whose expertise was psychology. After all, what will be left is human.

Tamura: I think that it is a very interesting idea to focus on people.

Nakauchi: Hardware needs scrap-and-build; it's not very useful. We want software. How to use software is the issue. We have had partnerships with various corporations but we want software.

Keep It Simple

Editor: It becomes extremely difficult to manage a company as it gets bigger. If the size of mouse becomes double, the weight becomes, two cubed equals, eight times as big. But the cross-sectional area of its limbs only becomes four times as big. In that case, the mouse squashed down by its weight. The economy of size is indeed important, but what will happen to the management of this big group, Daiei, in the future? In addition, the economic environment is ever changing quickly. Please tell us about your opinion on this.

Nakauchi: Very simple. Our management is "Keep it simple". Our business deals with cash on daily basis from the general public. We don't do anything complicated such as dealing with bills. We purchase products by cash and sell by cash. "Keep it simple", it is.

On the other hand, we give advice as it fits in the consumers' life scenes. We sell travel as well for times when the consumers have some extra spending money. We also sell overseas travel reasonable for the general people to go with their bonus.

Information we have is the information of the life scenes of our 6 million customers who have a Daiei card. So we only can do business based on that information. We only sell 150,000 yen diamonds. We don't sell 20 million yen diamonds. We don't even have manuals for that. We only have products and travels that these customers are interested in. "Income in cash daily" and "Our customers are the general public". These two are our keywords. I learnt a lot from Ichizo Kobayashi.

Editor: Thank you very much.

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The founder of Hankyu Group. His businesses were stores, movies, theaters, and development of residential areas and real estate, centered on railway.

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