

BUSINESS INSIGHT Autumn 1999

INSIGHTS OF TOP MANAGEMENT

Vol. 25

As a Leader of Local Cultural Creation

~ Private Railway Management, From the Past to the Future ~



Masatoshi Tezuka

Hanshin Electric Railway Co., Ltd. President and Representative Director

1953: Graduated from Faculty of Law, Kyoto University

Joined Hanshin Electric Railway Co., Ltd.

1979: Building Management Department Manager of the company mentioned above

1981: Director and Building Management Department Manager of the company mentioned above

Director and Transportation Department Manager of the company mentioned above

1984: Director and Project and Research Department Manager of the company mentioned above

1986: Director and Real Estate General Manager of the company mentioned above

1989: Representative Director and Managing Director of the company mentioned above

1992: President and Representative Director of the company mentioned above (present)

Director of HANSHIN Tigers (present)

Director of Hotel Hanshin Co., Ltd. (present)

Director of Kobe Chikagai Co., Ltd. (present)

1993: Director of Hanshin Department Stores, Inc. (present)

Director of Rokko Oriental Hotel (present)

Director of Sanyo Electric Railway Co.,Ltd. (present)

Director of Shinki Bus Co. Ltd. (present)

Director of KOBE Rapid Transit Railway Co, Ltd. (present)

Director of Mainichi Broadcasting System, Inc. (present)

1997: Vice President of Association of Kansai Private Railways

1999: Vice President of Association of Japanese Private Railways (present)
President of Association of Kansai Private Railways (present)

There are not many countries that let the local public transportation to manage themselves by a self-supporting accounting system. Railways outside Japan usually get a large amount of subsidy for not only equipment investment such as constructing new lines and large scale updating but also purchasing cars and operating costs. In Europe and America, they have been talking about the profitability of railway management in each city. Their issue is whether or not they can manage the railways only by transportation fees but the government takes care of the equipment investments. There are some countries that admit the child fare as a discount policy, and compensate the income reduction due to the child fare and let them record it as their transportation income.

This kind of system might have contributed to maintaining the high standard public transportation service, but it also caused a big problem that was inefficiency of the organization. Each country tries various reorganizations. The common keyword is "Supply by Private Sector." The most important theme is to improve the efficiency of the public transportation service while keeping the policy assignments such as organizing the transportation systems with the locals as a measures against the non-stoppable increase of cars.

In such discussions in those countries, in spite of no subsidy from the government, our private railway companies got attentions from those countries, because Japanese private railway companies are very important suppliers of passenger transportation service in local while keeping the profitability by themselves. At the time of our country's railway revolution, when Japan National Railways became JR they discussed learning the private railway's efficient working system. Our private railway's performance is well-known to the railway related people in every country.

Even such private railways are suffering because the number of passengers doesn't increase. The end of the rapid growth affected greatly the private railway management. Under such circumstances, what do the owners of the private railway companies think and what kind of strategies do they have? In this Top Interview, we invited President Tezuka of Hanshin

Electric Railway Co., Ltd. (Hanshin or Hanshin Railway), which had the 100th anniversary this June.

It is unnecessary to say that Hanshin railway is a very important and familiar railway company for Kobe University as well as Hankyu railway and West Japan Railway Company. Mr. Ichizo Kobayashi and Hankyu Railway are well-known about the private railway diversified management, but actually the diversified management of Hanshin has a longer history than that of Hankyu. And Hanshin recovered like a phoenix from four big damages, the Hanshin catastrophic flood on the fifth of July, 1938, a series of air raids in 1945, Typhoon Jane on the third of September, 1950, and the Great Hanshin-Awaji Earthquake on the 17th of January, 1995. And it has been playing a very important role as the local foundation.

Mr. Masatoshi Tezuka was appointed to President of Association of Kansai Private Railways in July, so in this interview we started to talk about the situation of the private railway management in Kansai area as a whole, the diversified management, the relation with the locals, the railway policies and so on. However, you will read stories centered on the railway company management in this issue.

Future of the Urban and Suburb Railways

Editor: The amount of railway passengers in the Kansai area was at its peak in 1991 but decreased 7 years in a row. The total amount of railway passengers among the so-called Kansai big five, Hanshin, Hankyu, Keihan, Kintetsu and Nankai was less than 400 million passengers, 15% reduced^{■1}. It is said that the amount of railway passengers will greatly decrease due to the increase of car possession and the aging population with the low birthrate. Don't you think that it is very hard for the private railway companies that have been playing an important role among the urban public Transportations system while keeping self-supporting accounting?

■ 1 Among the five companies, it is Hankyu railway that lost the passengers most. If compared with its peak (1991), it lost 118 million. The number of passengers that Hanshin railway lost is 62 million, so it is about a half of the number of the passengers Hankyu railway lost. The highest number of the passengers that Hanshin railway had

was 236 million in 1970 when Osaka Expo was held. In 1998, the number of passengers was 174 million and it was about the same as 1960.

Mr. Tezuka: Yes. You are absolutely right. The currently the railway companies such as five companies in Kansai have similar problems and are in very serious situation. The railway companies around Tokyo also have the same kinds of problems but the since the populations is relatively small in Kansai, the situation in Kasai is more serous.

One of the reasons is the economic recession. So if the economy is recovered from the recession, the situation will be better? I am not that optimistic. There are more structural factors, I think. In terms of that whether or not the economy will recover circularly like it did in the past, the specialists seem to have different opinions. It is not necessary to say that one of more serious factors is the social structural change, such as the aging population with the low birthrate. However, I think the motorization affects the private railways the most. People used to take railways, but there is the increasing number of people use cars. They go to somewhere far from the areas along railways, and these places are easy to access by car. The change like this has a great influence on us. However, I don't think that the motorization will grow rapidly in the future because I cannot think that the highways and normal roads will be expanded drastically in the future in the big cities. However, car possession will not decrease or the population along the railways rapidly will not increase in the future, so the number of the passengers won't increase in like the past.

Areas along the big private railways have been developed by the railway companies as their real estate business, one of their main businesses. The Areas were developed earlier than that along JR railways. This area development and the local people contributed to our growth greatly. However, the maturity of the areas along the railways probably is one of the factors to decrease the passengers.

If so, we must work on an assignment to keep the railway business in such circumstance. We do our best to increase the passengers, but this cannot be easily done with only one company. What we could do is to reduce cost such as an energy saving. I think it is important for us to try to manage efficiently while effectively investing in equipment.

The Era of Railway Network

Editor: In order to break through the circumstances such as the matured areas along the railways, it is necessary to cooperate with their urban policies to upgrade their towns. I don't think, however, you would be able to get the high population density like before even if you could cooperate with the towns and cities.

Moreover, transportation between urban areas and suburbs such as going to work and the future shift of the number of passengers greatly depend on maintaining attractiveness and remodeling of the offices and commercial accumulations. One railway company can only do so much for this too.

And, the diffusion of cars. As you said, whatever people did if they wanted to go to a city, they thought of using a railway first, but now apart from their offices there are many places to go in various areas.

If we keep talking like this, we are going to be depressed, but is it hard for the private railway companies to do something about it?

Mr. Tezuka: That private railway companies used to have a thought that they wanted to keep themselves in their own territories. Each of Kansai's big five had their own territory and protected it. Even the passengers and society saw us like that. And each company linked to the local areas. For us, it was Koshien. For Hankyu, it was Takarazuka, and for Kintetsu, it was Ise/Shima.

However, such era was in history. From now on, it is the era of the railway network. The characteristics of each railway company are, of course, important and they should not be lost. But I think we should change ourselves to provide a private railway integrated network including big five by linking up with each other.

In the case of our company, we have run trains on each other's line without changing cars with Sanyo railway between Sumaura-Koen and Oishi in 1968, but since last year we have started road between Himeji and Umeda terminals. As we announced, we are thinking to extend Nishi-Osaka line to Kintetsu Namba. If we complete this extension, we can directly

link to Kintetsu railway. And even though we cannot directly use the line, we can link to Nankai railway at Namba.

Not only in the hardware but also in software we tried to be integrated. For example, passengers can ride many different railways and buses without buying tickets each time they change their transportation with one card called, "Kansai Thru Pass"■3. Kintetsu railway also joined, so one card can link almost all public transportation of big five, including subways and buses in Osaka, Kobe and Kyoto. Like that, by making railways more convenient, we can increase demand. I think we can have some kind of infrastructure to compete with motorization. The networking is one key point.

Another key point is to promote the creation of attractive towns. It is also to introduce the characteristics of the areas along railways. People before us built Koshien Baseball Stadium, developed the area of Mt. Rokko and built facilities in Umeda. Those cultivate one of the characteristics of that current Hanshin, I think. While those created an effect to get more passengers, they contributed to the interaction between the local areas and us or among the local areas as well as creating characteristics. Of course, our local traditions such as sake breweries, shrines and temples, things that Monzaemon Chikamatsu left for us important■4. I think it is more important in the future to create facilities with characteristics to get more passengers or facilities for interaction activities while paying attention to such traditions.

Along with the efficient management such as the reduction of costs, our future strategies will be a long-term efficient management while using our equipment investments effectively to create facilities with characteristics to get passengers, facilities for interactions and networking. I think this is a common aim for all the private railway companies

■2

For example, 83% of people going to work in Osaka, 93% of people going to school and 78% of people for some other purposes depend on railways (The third person trip survey, 1990).

■3

Kansai Thru Pass started as a stored fare system that was used for five transportation companies, Hankyu railway, Hanshin railway, Nose electric railway, Kita-Osaka Kyuko

railway and Osaka Municipal Transportation Bureau (including buses). The stored fare system is a system of a prepaid card system that records the starting railway station in the automatic ticket gate and settles the fare in the automatic ticket gate at the getting-off railway station. The big feature of the system is to omit the time to purchase a ticket and so on. The participating organizations increased and in April 1999 Keihan and Nankai, in October Sanyo Electric Railway, Kobe Electric Railway, KOBE Rapid Transit Railway and Kobe City (planned) introduced the system. In 1999, 25 organizations participate. Besides, this July Kintetsu (will introduce it in 2000) decided to participate. Almost all the public transportation in Kansai except JR (West Japan) that has a different system is linked by the system.

■4

It is unnecessary to say that Nada Five Places of Sake Production are along Hanshin line and the closest train station to Nishinomiya Ebisu Shrine is Hanshin Nishinomiya, and Amagasaki Temple Town Area is Hanshin Amagasaki. Monzaemon Chikamatsu has a strong tie to Amagasaki that is one of the cities along Hanshin line and there is a temple called Kosai-ji Temple that is also known as Chikamatu-ji Temple in Amagasaki City.

Railway Business of Hanshin Railway

Editor: It looks like I asked you to tell us some conclusion at the beginning of the interview. Before we will get into deeper discussion about it, I would like to ask some questions about business of Hanshin railway.

In Hanshin area, there are three railway companies, Hankyu and JR (West Japan) including Hanshin. The companies' rail roads are running parallel to each other and the service competition among three companies has been well-known since a long time ago. Hanshin has provided a very high standard of service with speed and frequency along with the catch phrase, "Hanshin railway with no waiting" since the foundation.

Mr. Tezuka: If I tell you the characteristics of our lines briefly, first of all, it is the railway between two big cities, Kobe and Osaka. Moreover, our terminal at each end is located in a

very developed city. All lines are located in the cities that were developed relatively earlier than any other cities in Hanshin area.

Our current operating distance is about 45 km. Even if we add a new line, an extension to Namba of Nishi Osaka line, it's about 50 km. It is very short for a so-called big railway company. In this 50 km railway line, we have 50 railway stations. So we have one station in every 1 km. This may be our weakness if we talk about a time reduction between Kobe and Osaka. But, I think the fact that we have as about twice many stations as Hankyu and as about 2.5 times many as JR in Hanshin area is one of our strengths, so we should take advantage of it. And when the construction to elevate the railroads we are doing now is completed, we will have almost no places where the roads and railroads cross each other.

A small company like ours has many strengths if we look for them, so it is important for us to take fully advantage of the strengths.

Editor: The reasons why Kansai was called the "Kingdom of Private Railways" were a result of the competition among the private railway companies and the former Japan National Railways. The cars as well as services have had a very high quality since the prewar period. Japan National Railways was in charge of long distance transportation, and the private railway companies have more advantages in suburb transportation since Japan national railways tended to apply Tokyo-oriented service. The reason why the cars of the trains are not as crowded as Tokyo is not because we have less people in Kansai but because of those reasons I mentioned.

However, after JR came to the world, this situation changed a bit. At the end of Japan National Railways, they had already some plans of urban-network-related constructions to modernize the cities in the Keihanshin area. Probably that is one of the reasons why the private railway companies are having a hard time in the service competition with JR. Especially after the earthquake, there are many articles on the newspaper that say that JR aggressively competes with the private railways and the private railways are in defense. What do you think about it?

Mr. Tezuka: I can't say many things about other companies due to my position. But it is true that we have to pay attention to be competition with JR. Especially after the earthquake, we pay more attention to JR■5. However, since the operating profit of JR (West Japan) is about twice as much as the total of five private railways in Kansai, I think

we are too small to compete with JR. Some said, "The birth of JR is the same as that we woke up a big elephant". If we compare ourselves with JR that inherited facilities and so on from Japan National Railways, there are clear differences in many aspects such as the number of railroads, the capabilities of terminal stations, and the size of the stations. I don't think we can win in the speed competition between Umeda and Sannomiya.

Besides, after the privatization of Japan National Railways, JR has been proactively trying to develop many services. We have no choice but to be affected by JR. After the privatization, JR hasn't changed the fare at all except the change for tax purposes. However, the private subway companies have changed the fare at least about three times, so in an aspect of the fare, the situation is totally the other way around compared to the one when JR was Japan National Railways. I think JR will keep the fare as it is for a while so the private railways companies cannot increase the fare either. We have to keep managing the company on that condition.

Editor: JR, when it became private, invested in motorization and energy savings and left a part of the debt to Japan National Railways. There is a slight exaggeration if I say it was an easy start for JR but that's how they started. On the other hand, the private railways have spent a lot of money to enhance the transportation and that improved the service such as less crowded cars. But the number of passengers doesn't increase so it is hard to manage. Since the private railways had to raise the fare, so it is not an argument of the management strategies in terms of the fare, I think.

■5 In terms of the recovery of the railways in Hanshin area, JR recovered on the 1st of April but Hankyu recovered on the 12th of June and Hanshin recovered on the 26th of June. It took these more than two months for two private railways to recover after JR. It is said that these 80 days affected their passengers' behavior.

The cities around Kobe got damaged the most. Therefore, it is said that the reasons why the passengers of the private railway companies decreased are because, the residents and companies in these areas moved out of the areas along the railways, people started using the railways that they never used before during the slow recovery in different areas, people realized that not only the terminals in Umeda and Sannomiya but also the stations of these three companies in west Hanshin are not very far from each other, and so on.

Why is the Private Railway Management Efficient?

Editor: The railway company-related people outside Japan have a good image about the Japanese private railways, especially in Europe. It is actually shown that the public railways are more efficient than the public railways in various researches and studies. However, there are always questions, how Japanese private railways can provide the good service with the cheap fares without subsidy. So what do you think about the railway management?

Mr. Tezuka: I think we are not really doing anything special. However, if I say this it could be a problem but frankly speaking the public operated railways don't have to think about the profit. So I think there is a big difference in cost awareness. I think the former Japan National Railways was the same. But the former Japan National Railways doesn't exist anymore. I think the reason why the government created JR was that they were aware of the limit of their management.

I think the governmental management and the private railway management are completely different. We are managing the railway business for the public along with the principle of profitability. Behind that management we are making an intense effort in many aspects such as personnel and facilities. The efficient management cannot be done instantly.

And we must talk about the diversified management. Our income from the railway business is about 35% of the total. We have various businesses apart from the railway business and that's how our company is run as a whole. We are not very profitable in the railway business alone. We are supposed to run our company and to follow the fare regulations based on the full cost principle, so our system is supposed to make profit. But it is actually difficult⁶. Especially, under the recent circumstances such as not being able to increase the fare, the situation is just getting more difficult. The number of the passengers doesn't increase and there is a limit to rationalize the system. And also we need to invest a certain amount. I can say that the railway business is actually in debt. As a company, we have to diversify our business to make up the loss.

Editor: Since the accounting of the railway business and the other businesses are supposed to be done following the regulations the Ministry of Transport, you cannot control the profitability of the railway business using the other businesses in an

arbitrary manner, right? Of course, there is a gray area since the Ministry of Transport made up some reasons in order to keep the fare low based on the profit of the diversified management.

■6

For example, when the modification of the fare was implemented once every three years, they made a profit in the year of the fare increase, the profit and the cost were balanced out in the next year, and in the year after the next year it was becoming a loss. And thus, they had to increase the fare again. The Ministry of Transportation had to give an explanation like that.

Pioneer of Diversified Management

Editor: By the way, Hanshin railway is a pioneer of the development of the areas along the railways by a private railway company in our country. Hanshin railway started operating this way in Kobe and Osaka in April, 1905 and in July of the same year it built a swimming place in Uchidehama. The swimming place moved to Koroen Beach in 1970 and Hanshin railway opened Koroen amusement park. In terms of the diversified management by the private railways, called local total industry, Ichizo Kobayashi and Hankyu railway, more precisely the former Hankyu railway, Mino-Arima Electric Tramway Company■7 are well-known, but it was Hanshin railway that first started tourism development and residential area development along the railways.

Mr. Tezuka: You know a very old story. Hanshin railway started the electric light and power supply in Amagasaki, Nishinomiya, and Mikage area in 1908 and also built 30 houses for lease in front of the Nishinomiya station and started leasing business. I think the outline of the current business styles we have now were already built before the war. In short, we put in the railroads, built Koshien Baseball Stadium, manage Mt. Rokko and establish a town in Umeda. Not only our company but the private railway companies per se have been doing such things.

For example, we completed the new underground railway line between Sannomiya and Iwaya, and built a terminal building in Sannomiya in 1933. We asked Kobe Sogo that

was in Motomachi Go Chome to come and operate in the building■8. Three years later, we extended the line to Motomachi, and we built another terminal building with a fashionable design. This terminal building looked like Japanese Imperial Navy Naval ship, "Mikasa" if we saw the terminal building from the sea. Unfortunately, now the building is remodeled. Hotels as well. The former Koshien hotel■9 that was well-known as a high-grade resort hotel was designed by Shin Endo who was one of the best pupils of Frank Lloyd Wright and built in 1930. Including the hotel, these hotels were built based on the ideas of our company. Each business is the results of hard working as a railway business company.

When I look back, Koshien had an aquarium that was said the best in Asia, a sports field, Koshien Baseball Stadium, 60 tennis courts, and a swimming pool. When I was a kid, I went to watch a Junior high school baseball game and went swimming and went to Muko River and so on. For elementally school children it was a paradise. All were run by one company. Even though I was a kid, I thought the company was really good. The company did various great things that we couldn't do now even when we were told to do the same thing.

Especially, what I was impressed was that the company built Koshien Baseball Stadium back then. The total number of seats was 50,000 and the total number of people it could contain was 80,000. Koshien Hanshin Aquarium was opened in 1935 when I was in elementary school student. It was great too. They had a whale back then■10. When I joined the company, the company had a ship. I wondered why a railway company had a ship but it was the ship to catch and correct fish for the aquarium.

A long time ago, we had an amusement park along Koroen. That project was very huge. The company made a swimming place at Uchide Beach and developed residential areas. And it developed the whole area around Koshien. The company plans to develop residential areas in the north side of the railway and sports facilities and leisure facilities on the side of the sea. The company needed all of those before the war. I think that was outstanding. If you let me say something arrogant, the company has given dreams to people in their local areas. Contribution to the local areas was great in such sense. Only one company did those things. The railway business is a part of it. The fare was relatively more expensive than now. The current fare between Kobe and Osaka is a half the price of a cup of coffee. That was different too.

■7

Mino-Arima Electric Tramway Company was established in 1910, already selling residential houses in lots at the beginning of its foundation and founded Minoo zoo (closed in 1916). Next year it opened Hot spring in Takarazuka, and the first performance of Takarazuka Revue was in 1914. And in 1920, Hankyu Building (older building) was built.

■8

Hanshin railway applied to build a private railway company with all private railroads within Private Railway Act but it was denied since it was seen as a rival railway company of the governmental railway. Thus, it got a license under Railroad Act. For that reason, it was supposed to place their railroads on streets, but since the goal of Hanshin railway were to make a urban electronic railway to connect cities speedy and frequently (The lines made by nation was not electronic at that time), Hanshin railway repeatedly petitioned to the authorities. As a result, Hanshin railway was allowed to have its own railroads except 4.8km in Kobe City and around Mikage (village). After that, such extended interpretation of the Railroad Act became a chance for the private railways to start up.

This street-railroad zone have hurdles in structural and safety aspects, so Hanshin tried to make the all railroads theirs. At the same time Hanshin railway planned to move the terminal from existing area at the time to Sannomiya so it started to plan it with the railroad extension application as a set project. Hanshin planned to introduce an elevated railroad as its extension plan but Hankyu's operation on the elevated railroad met with opposition at a city council meeting. So Hanshin introduced the underground railroad in their plan and the plan was accepted. At the same time, Hanshin received a special permit of operation up to the Minatogawa Park area, the final station of Shinyu Electronic Railways (currently Kobe Electronic Railway) but the operation was not started until Kobe Rapid Transit Railway was open in 1968.

■9

It is currently Hall of Koshien of Mukogawa Gakuin. It was used as a hotel until it was converted to a facility of Kawanishi Aircraft in 1944. After the war, it stayed ruined as a

national possession of the Ministry of Finance but Mukogawa Gakuin bought and reconstructed it in November 1965. It is recognized as one of the cultural heritages that still has Wright's architectural ideology yet has roots in the local areas.

■10

In 1936, the aquarium brought eight short-finned pilot whales from Kishudaichi and successfully kept them in the aquarium. There were no records of keeping the short-finned pilot whales before this. The exhibition was started in fall, but due to the issues of changing water and cold wind, the exhibition did not do well in the next year and the whales died one by one.

The Local Areas are the Foundation

Editor: Can you explain more about the development at that time? What is the source of the power or strength to make the company to implement all kinds of projects? What do you emphasize on in implementation?

Mr. Tezuka: Hmm, the source of the diversified management? First of all, it is the local areas. What we did was to link Kobe in Osaka and create towns. But we didn't do these things easily. For example, when we decided to build Koshien Baseball Stadium, we had many serious discussions. And we started to build it in March 1924 and finished in July. It took us only four months to build that big stadium.

Koshien development project started when we bought the riverbed of the branches of Muko River, Eda River and Saru River from Hyogo Prefecture on the 30th of October, 1922 after the rivers were abolished. And we decided to establish the residential area on one side of the railroad and sports facilities and an amusement park on the other side. We already had a baseball field in Naruo at that time and the field of All Japan Junior High School Baseball Tournament was shifted from Toyonaka to Naruo. So the field hosted the 3rd All Japan Junior High School Baseball Tournament in August 1917 and then on. But the field capacity was not big enough. And there were a number of requests for bigger baseball field

and it corresponded with what the company was thinking. And there happened to be a buyout of the riverbed. That's the story I heard. As one of the Koshien development projects, we decided to build a baseball stadium. It was called Koshien Great Sports Field back then, so it was not only for baseball but for all other sports. After that, our company established recreation facilities around and placed new railroads. We started selling residential houses in lots when the name of the era changed to Showa in Japan, and also started providing clean water.

And what we cannot forget to mention as software of Koshien development project along with high school baseball is Hanshin Tigers. The baseball games between Japan and America in 1931 in 1934 drew a lot of attention from baseball fans, and in 1934 the Japanese first professional baseball team, Yomiuri Giants was formed. The next spring, in 1935, our company was asked to have a professional baseball team because we had this great baseball stadium, Koshien. We thought that Japanese baseball would shift to professional baseball, even though it was a big risk, the management decided to have a professional baseball team following Yomiuri Giants. It was formed on the 10th of December, 1935. It was called Osaka Baseball Club¹¹. The management of the baseball team was not easy. After the war, the professional baseball league introduced two-league system and our baseball team belonged to the Central League, the same league as Giants. Hanshin versus Giants was the main game, and we tried to keep it that way. Consequently, at last, we could keep one million spectators at our hosted games all the time. Thanks to the increase of the professional baseball fans, the number of spectators kept increasing each year. In 1985, the year Hanshin Tigers won the Japanese series, the number of all the spectators was 2.6 million. In 1992 when Hanshin Tigers was competing with Yakult for the Japanese series, the number of spectators was 2.85 million. That was the new record of the team. Now Hanshin Tigers is a well-known brand nationwide and it contributes to the company's management, but it took us a half of the century to get where it is now.

Mt. Rokko as well. After the name of the year changed to Showa, we bought 248.92 ha of land from Arino village in 1927. And we got our associated company, Rokko-Goe Arima Railway to put cable and had buses run from Shinzaike Station to Dobashi station near the cable. And we also started to run buses at the mount too. That year, we started selling 40 subdivided lots and in 1933 we started selling subdivided lots for rental holiday houses and holiday houses. Together with Rokko-Goe Arima Railway, we opened an alpine garden in May the same year, Rokko Oriental Hotel in 1934, Japanese style hotel Ryouonso in 1936, and Mt. Rokko Country House in 1937.

The reason why the company came up with those ideas was, after all, that the company wanted create great things in the Hanshin area from a standpoint of management. We were a pioneer since our company was the first one who started creating towns and the private railway management. Therefore, these voluntary ideas also came up based on such pioneer spirit, and there was a great decision-making process of the management.

These areas around the current Osaka station including Hanshin Department Store, our old headquarters building, West Hanshin Building where Hotel Hanshin was located, and New Hanshin Building were built by mainly us. That was when we built Umeda underground terminal to link with subway line, Midosuji line by extending our line for 800 m ■12. After the meeting with Osaka City, we built pedestrian subways, Osaka Station Plaza, and streets by our money. It is just like a donation after buying land, making subways underground and streets over the subways. It is also true that the rent from Hanshin Department Store and so on still contribute to our management.

Editor: There is the case of Kita-Osaka Line■13.

Mr. Tezuka: When we made this line, we bought land and put railroads and also made streets. And we donated them all. And we bought areas along the line and developed them. Koshien was a bigger project version of these. All of these were very successful because our needs and the local areas needs were integrated well. When we made Hanshin Kokudo Line, we paid the construction fee of 5.45m width road for the railroad installation into the road. Maybe the key point is that we don't think about only our profits.

So, we are proud of being a pioneer in building railroads and creating towns at the same time as in addition, we also do power generation and power distribution, and we did water business too. The power and water are essential for creating towns. We did those by ourselves. The power of the 100 year of the development history and traditions, and corporate culture is great, I think.

■11

The nickname back then was Osaka Tigers and in April 1961 the name was changed to Hanshin Tigers.

■12

It is about a subway line at Osaka Station that was opened in March 1939.

■13

It is a railroad-street line between Noda and Tenjinbashi-suji 6 cho-me that was opened in 1914. It was closed in 1975 due to the strong trend of motorization. In addition, similar patterns are, for example, Fukuoka City Line of Nishitesu and Kitakyushu City Line. In one of these cases, it was just about to be a law suit with a road administrator over the position of the land.

About Development Beyond the Areas along the Railways

Editor: I think that Hanshin railway didn't expand its business beyond the areas along the railways much. Can you tell us about that? Do you think business beyond the areas along the railways is too much of expansion? Can you tell us what you think about it for the future private railway management?

Mr. Tezuka: I think that the top managers in the past wanted to increase the area a little because they were top. Since the development of areas along the railways was done earlier, they did what they could do in the Hanshin area before the war and during the war. Maybe we could say that the areas along the railways were already developed. The other private railway companies were startups compared to us. They were doing what we had done but bigger compared to what we had done in the rapid economic growth after the war.

It was unlucky for us to have our underground railroad sunk in the water because of the Hanshin catastrophic flood in 1938, to have a series of air raids in 1945, and to have 134 cars in the train depot of Amagasaki sunk in the water because of Typhoon Jane 1950. We suffer in that point of view. While other companies were developing, we had to spend our time, labor, and money to restructure ourselves back to before. It was only our company who damaged by the war and the water. It doesn't matter who was the top, we had to accept the fact. We cannot blame them.

Future Business Development and Private Railway Management

Editor: What do you think about the future? You talked to us about the railway network at the beginning of this interview so can you tell us about the private railway management or the diversified management?

Mr. Tezuka: I think we have to think about what we are going to do, but we should keep on doing. We have just finished the first phase of West Umeda development and will start the second phase. The underground shopping center of Diamor Osaka is run mainly by us and Hanshin Department Store. The development of Fukushima is finished and the development around our headquarters in Noda is now in progress. We don't have much money and we are in a very serious situation, but we have been reconstructing while being aware of the town creation.

Businesses that a railway company does are long-term, and it is not something that can make quick cash and give back the debt quickly. This business is a long life expectancy. That is a fate of a railway company. However, it isn't good enough for the future.

How can I put this? Maybe it is a software industry? We started various businesses such as intellectual and service businesses, unlike a heavy-loaded business like a railway. We cannot stay away from these businesses because they are in different fields. For example, we started a cable TV business in the information industry. This business is related to almost all of our companies from the west of Osaka to the east of Kobe. In Amagasaki, Nishinomiya and Ashiya, our company is the center of the business. We also have a software business for computers and have a company called i-TEC Hanshin to be in charge.

In terms of our group company development, we will corporatize businesses related to department store business and railway business one after another. We have construction business, electronic equipment business and hotel business and so on. One of our recent businesses is The Ritz-Carlton OSAKA. That is fortunately highly appreciated. It is a hotel with great facilities and high standard service. Hotel Hanshin moved to Fukushima, but this is a local based hotel. The local people are using the hotel and it is very popular. There is a business that is different, for example, Osaka Blue

Note.

These businesses I mentioned are only along the railways, but we have an air transportation business in travel and cargo divisions under the name of Hanshin Travel as an air travel agency. The product called Friend Tour has a high popularity as a long-established Europe-specialized service brand. In terms of the cargo business, we established a joint venture company and will run it as a subsidiary. We are planning to enhance its mobility, expand the international logistics network more and aim to become globalized. We have a national logistics company called Sanyo Motor Carrier in a relatively large size. Like these, we are already expanding our business nationally and globally. We will be developing while paying attention to situations. But we still think that our business root is local-based business, so we keep creating the local culture by making a step-by-step effort.

If we want, we can do various things but unfortunately a railway business is not a very rich business (laugh). However, we have various foundations in making a step-by-step effort. In addition, because we are doing various businesses, our employees are learning a lot, and we have accumulated expertise. If we want to create a town, we have enough subsidiaries and related companies for that. We have expertise for service business such as a hotel business and a distribution business. We can do things by ourselves without getting some other companies involved. We have developed the resources such as personnel, things and information for the management.

Editor: What kind of business field do you think is most important to expand your business to, as Hanshin group?

Tezuka: Firstly, as I mentioned just before, these intellectual businesses such as service. Hopefully, I do these businesses without spending much money. At the moment, I would like to enter the intellectual industry more.

These businesses that we have to build, such as the hotel business, are hard to manage, I think. It is hard to keep the business in good shape or keep up the change of the market if we don't remodel the facility or don't change the employees at the right time. As a business it is very attractive once it is set up, but the facilities get old. So it is not very easy. For example, the Ritz-Carlton manages the issues I just mentioned systematically because it is the No.1 hotel. They remodel all the time to avoid becoming

old. It is a kind of expertise, isn't it? I think it is necessary to develop and expand our businesses taking care of people and emphasizing expertise.

Especially from now on, if the company is evaluated based on its consolidated financial statement, we have to think about strategies while looking at the whole companies in the group and ourselves. Luckily, we are doing well on the consolidated base, so I would like to keep it that way.

Editor: Thank you very much for your time and stories today.

[From Editors]

It cost 45 billion yen for Hanshin railway to recover from the damages by the Great Hanshin Earthquake. This is about 1.5 times more than its operating income, 30.1 billion (1999, the previous year of the earthquake) of Hanshin railway business. However, it was 13% of the operating income for JR West Japan and 41% of that for Hankyu. Moreover, if Hanshin included three billion yen, the damage of the facilities that were not directly related to the railway business, the recovery cost increased to 48 billion yen. That was a bit less than 70% of the total amount of the sales of all the Hanshin group companies (70.1 billion). It is true that Hanshin railway recovered from the damage 80 days later than JR, but if we consider the amount of the damage it had, there is no exaggeration to say that the speed of the recovery was miraculously fast. Hanshin Expressway that ran besides the Hanshin railway recovered from its damage over one year later than Hanshin railway.

The Hanshin railway probably came to the place where they have to decide the way they should take for the future in the serious circumstances currently surrounding the private railway companies. Talking about the future of Hanshin railway certainly becomes a discussion of the future urban transportation and town policies such as the urban transportation system. He told me, "Please edit things that are not appropriate. After all we are a public transportation provider" but he expanded his stories a lot. One of the themes was how to make the best use out of such an effective organization as the private railway company. However, we omitted it due to the characteristics of the argument and our editing policy. Despite that, I think we could introduce the relative

amount of informative stories here in terms of the railway management as a public service.

On the day of this interview, he repeatedly told me, “My stories are going to be something radical” or “My stories don’t have any management philosophy or coherency because the reality is too severe now.” But he gave the interview with a smile all the way through to the end for one and a half hours. We would like to give our appreciation to such a wonderful person, President Tezuka.

This interview was successful due to the corporation of Mr. Hiromi Nonouchi, Railway Project Department Manager of Operation Department, Mr. Toru Nakajima, Deputy Director-General of Secretary Department and Mr. Hideaki Itatani, Section Manager of PR Division of General Affairs in Hanshin Electric Railway Co.,Ltd. I would like to thank them here.