

**Kenji Miyahara, Chairman of Sumitomo Corporation**

**Traces and vision of reform for rapid growth of general trading company**

March, 1958 Graduated from Faculty of Law, Kyoto University

April, 1958 Entered Sumitomo Corporation

September, 1965 Move to New York Office

August, 1972 Manager, the First Sect. of Steel Pipe Overseas Division

October, 1979 General Manager, the Second Sect. of Steel Overseas Division

June, 1986 Member of the board, Deputy General Manager, Steel Overseas Division

June, 1988 Divisional Manager, Steel Overseas Division

June, 1990 Executive General Manager, President, Sumitomo Corporation America

June, 1993 Executive Director, Board member and Divisional Manager, Business Investment and Administration Division

June, 1995 Vice President, Divisional Manager, Administrative, Legal, Corporate Planning, Investment, Financial and Audit Dept.

June, 1996 President

June 2001-Present Chairman

We focus on how the modern general trading firms conduct business today, especially as they start to do new business in the downstream consumer market. Recently, Mitsubishi Corporation joined the capital of Lawson, a convenience store and Itochu joined the business of Familymart and transferred their staff members there as an owner. Sumitomo Corporation has already made a smooth transition into the development of the retail market. Its subsidiary supermarket called "Summit" has steadily grown in the metropolitan areas. In addition to that, Seiyu a supermarket which Sumitomo acquired capital in cooperated with the biggest retailer in the world of Walmart. It's said that this deal was a key point of reorganization in the distribution industry.

In this interview, I asked Mr. Miyahara, Chairman of Sumitomo Corporation, to discuss the highlights of their business. The company underwent a major corporate reform 10 years ago to strengthen its corporate constitution. The main person leading the reform was Mr. Miyahara. What the main role of general trading firms is today; what advantage they have; how they will change in the future; and what the reason was for corporate reform of such a large scale organization were the topics of this interview. This interview will be very helpful for readers who have an interest in learning about the changing role of the general trading company.

**History of Sumitomo Corporation**

**Interviewer:** Everybody knows this corporate name or will know the name but I think nobody can explain

what history it has. Could you talk a little about it from your understanding point?

**Mr. Miyahara:** The biggest difference with this company among general major trading companies is that the company was born in the post-war period. It was registered as a company “Osaka Hokko Kaisha” in the Taisho era. Then, the company decided to enter trading business after the war.

There was a serious reason for this. At that time, there was a rule that prohibited Sumitomo group from having a trading company. There was “Sumitomo’s business spirits”. Simply saying, “Put much importance on integrity and sound management” and “Prohibited to pursue easy gain” Maybe the company might have thought the second policy was unsuitable for the style of trading business at that time. I think it might be difficult to manage a trading company with such policy. That’s why Sumitomo group had no trading firm in the pre-war period.

However, staff members of Sumitomo group went back to Japan when Japan lost the war. The company thought about what they needed in order to make a daily living and thought it better to establish a trading company. After heated discussion in the group, they finally established Japan Construction Industry in 1945.

Hisashi Tsuda, Honorary Chairman who recently passed away at the age of 98, was a manager of the Personnel Department in the head office of Sumitomo group during the war and became a major figure in Sumitomo Corporation.

We started business by selling various products of Sumitomo group. That’s how we started business in the postwar era and received the backing of the Sumitomo group. But we were totally amateur at that time. I entered the company in 1958. Mr. Tsuda often said at the time, dedicated amateur wins over a professional. It means as the phrase says “If we work diligently, we can win over a professional.” Now that we are in competitive times, such thing is invalid. (He laughed.)

**Interviewer:** As I imagine the name of Japanese Construction Industry, did you do business of construction machine or something?

**Mr. Miyahara:** No. The company started selling very basic things like pots and pans and so on. It couldn’t use the name of Sumitomo Zaibatsu, financial group. After Zaibatsu dissolution, it could use it and changed the corporate name to “Sumitomo Corporation” in 1952. You might not imagine it if I say the times of 1952, the 27th year of the Showa era.

**Interviewer:** I’m afraid of not doing so. (I laughed.) Did it have any turning points after that?

**Mr. Miyahara:** Yes. We had a lot. It was the time of Korean War and the Japanese economy established the foundation for the high economic growth when I entered the company in 1958. I don’t remember precisely what rank we came in the industry but the sales might have been around tenth. When I was looking for employment, a teacher of a seminar asked me why I wanted to work in a trading company despite everybody thought it was an unstable industry, so I said I wanted to work there to go overseas. Then, he told

me to go to Sumitomo Corporation and wrote a recommendation for me. I knew the corporate name for the first time at that time. (He laughed.)

**Interviewer:** Did you enter the company because of his introduction?

**Mr. Miyahara:** Unlike today, there was little information shared with students about companies. Precisely saying, few people were interested in that kind of information when I was a student. University was a place to pursue studying not to gather information to get practical learning or to find a job. There were much hard ideas like that.

### **Mr. Miyahara's career and development of Sumitomo Corporation**

**Interviewer:** I'd like to ask you how the company ranked up from the 10th in the industry? You mean you experienced various jobs since you entered the company and improved your career in accordance with the corporate growth.

**Mr. Miyahara:** Yes. You're right. The company grew same as the Japanese high economic growth. It was as like the current Chinese, working with their eyes sparkling.

**Interviewer:** What kinds of job did you do first when you entered the company?

**Mr. Miyahara:** I was assigned in Osaka. At that time, the head office was in Osaka. I was assigned to do business in the domestic steel sales industry. I was taught by wholesalers what the business was. I learned the basics of being a businessman from them. To say it in a homespun word, businessman in Osaka was a considerably tough negotiator. What I experienced in the domestic business for five years was very helpful for me.

**Interviewer:** Do you have any episodes you could talk about at that time?

**Mr. Miyahara:** This isn't an episode but I sometimes felt that my previous boss educated young people with enthusiasm. I sometimes had a drink with wholesalers. They sometimes asked me to have dinner together. In such case, my boss told me to go with them, be treated and not to worry about anything. He also said I had to pay it back when I had a drink in the next place. I was taught these things by him.

**Interviewer:** You learned the basics of business in Osaka, after that what kind of job did you do?

**Mr. Miyahara:** I was moved off to Tokyo on the personnel reshuffle. I was transferred to what it called the foreign trading Dept. and was in charge of exporting steel pipe. Three years after that, I was moved to New York. I was involved in Asian business in the trading Dept. of Tokyo. Sumitomo Corporation established the first joint venture in other countries in Hong Kong. It was 1964, the 39th year of the Showa. I went back and forth to Hong Kong. I had many things to talk about this project if I explained it in detail. Simply saying, we built a big factory to manufacture pipes for carrying water. At that time, there was chronic shortage of water in Hong Kong. In order to solve this problem, we had a project that carried water from China to Hong Kong. The gauge of the pipe was 48 inches. If we exported it from Japan, it is like exporting the air, it took much money and wasn't competitive. Therefore, we bid for a project on the premise of manufacturing pipe.

Partner of the joint venture was Fujiseitetsu and Sakai steel in Osaka. This was really helpful for me to learn many things. We had to learn various things from start up to accounting system in order to establish a company. We didn't have any know-how in our company. We had to study everything by ourselves. It was really good for me.

If we go to China from Guangzhou to Hong Kong by train, we can see a lot of big pipelines along a railroad just before getting to Hong Kong. Although there are four or five lines, the first pipeline was what we built. At that time, China was a communized nation called "Bamboo curtain" but I thought it was really good business for China to sell a lot of affluent water to Hong Kong. It could get hard currency with water. We really felt meaningful doing this business. It was a business without any professional – it was all hands on. I had to do everything like two roles of pitcher and catcher. It was really hard job.

I had a few bosses at that time however since we were an amateur group and as a result I had to study all on my own. It was a really good period in a sense.

It took two years to complete the base of this project. After that, I was moved off to New York on personnel reshuffle. I lived in New York from 1966-1972.

**Interviewer:** What did you do there?

**Mr. Miyahara:** At that time, since there were overwhelmingly much exported smokestack industrial products in Japanese economy, I mainly imported steel products from Japan and sold it to American customers. I had various difficulties in doing this business but I rather enjoyed doing it. I could feel how big the American market was and the way of American business was a global standard if I can express it in the present word. If I could understand this, I thought it could become the standard for doing various businesses in the world. I made it my business to study such thing.

**Interviewer:** Was it totally different from that of Osaka or Hong Kong?

**Mr. Miyahara:** The basic of business was almost same however there were various things to learn in every country. I remember an episode even now when I bid for a petroleum company to sell products when I offered my bid, I thought it natural to ask my customer whether my offer was expensive or reasonable but a person in

charge said to me, “Why did you say so? It’s strange. You gave me the best condition. Give me the best offer from the beginning. If you do so, I just decide it. That’s it.” I mean he might think I knew the price of competitor and tried to negotiate it. This is an ordinary business process but it was very impressive how he thought about fairness. American people were very frank and open to give us business chance. To say it in a word, it’s easy to do business in the U.S.

**Interviewer:** I want to ask you two things. There was a big steel firm or pipe company in the U.S. at that time. When you appealed Japanese steel or pipe companies, what difficulties did you have? This is the first question. The second question is many Japanese firms like your company also entered the overseas market. When you competed with other companies, what points did you focus on or where did you have troubles?

**Mr. Miyahara:** The first thing is that heavy industry in the U.S. was strong at that time therefore American manufacturer gave us a big counter punch in every business. There were sometime times conflicts in business. We had a case that customers didn’t buy our product not because it was Japanese product but they couldn’t buy imported product if there was difference of 10%. This is not because they were discriminating against Japan but it was risky to use imported products and they would rather use local products if there is no such advantage. However, conversely saying, they could accept our products if their cost was low enough to cover the advantage. I didn’t care about Japanese competitors in the same industry. I mean the market was so big.

**Interviewer:** There was a TV program “Project X” on NHK which introduced a story that Sony had difficulty in selling transistor radios in Europe. It decided to enter the German market first. People in Germany really like brand, for example, the company put the product in the shop on an expensive piano. It started to appeal the product in such expensive shops. When you sold products to such places, do you have any strategy or tactics to attack the market?

**Mr. Miyahara:** We didn’t sell consumer goods but intermediate goods, so our customer was also businessmen therefore we took hard-nosed measure to do business. As I told you, they basically bought a product with price competitiveness and good quality. Quality is directly more important than brand image. For example, pipe made by Sumitomo metal is very famous brand in quality but different than that of Sony.

**Interviewer:** You mean you are totally dependent on Sumitomo metal or the ability of supplier. I mean you didn’t have to play a role of a trading firm.

**Mr. Miyahara:** Manufacturers make higher quality of products but a trading firm plays an important role of understanding customer needs to sell products and collect the payment.

## Roles of trading company

**Interviewer:** As you did in the U.S., Japanese trading companies played active roles to support Japanese competition. How did the trading company contribute to the Japanese economy at that time?

**Mr. Miyahara:** You could understand that manufacturers were too busy and had not time to do anything except for production from the 1950s to 60s from the 30th-40th year of the Showa era. Therefore, trading companies established their overseas branches and collected the payment, exported products and imported materials on behalf of manufacturers. In this sense, manufacturers depended on trading companies, especially steel manufacturers because they were busy to increase domestic equipment.

**Interviewer:** What kind of customers did you target at to sell products in the U.S.?

**Mr. Miyahara:** We sold steel pipe, so I had many customers of petroleum companies and steel wholesalers.

**Interviewer:** Are there few concepts of general trading firms in the U.S.?

**Mr. Miyahara:** No. They have no such concept at all and still have no concept. General trading firms only exist in Japan. There are such firms in Korea but completely different from Japan's. General business firms which do business with the general ability exist only in Japan. According to the recent globalization, we have more opportunities to have investor relations in overseas countries however we have difficulty in making non-Japanese understand what business we do. If they have the same kind of business there, they can compare it easily but they don't have such thing.

In the 1980s, we were called "The trading firm". People thought we had very big ability and sales became several trillion yen. It was the time that non-Japanese also thought "The trading company" as very big and powerful existence although they didn't know it clearly. However, Plaza Agreement and the collapse of the economic bubble caused the Japanese economy to be in severe conditions and give us big turning point. Therefore, we had to improve the function. The trading firms can't survive if we only work as intermediary agent for import and export. For example, manufacturers depended solely on us at the beginning however as they improved their ability, they wanted to have direct business route with customers without intermediary as much as possible. This is natural. We concede it and give it back to manufactures if we finish the time of development. We simply don't play a role of an agent but do business integrating various functions such as financial, distribution and risk management functions.

**Interviewer:** Did you have no functions until 1970s?

**Mr. Miyahara:** Yes. (He laughed.) We had considerable volumes of functions for export, marketing and selling

products in overseas countries. Of course, not only American market but also African and the Middle East, it's still very difficult that manufacturers establish sales office in overseas market to have sales routes by themselves. For example, we can't manage to understand people in the Middle East unless we transfer our staff members to the local site and do various businesses there on a daily basis.

We also have many multiple functions of businesses. For example, when we do business with petroleum companies we sell them pipe on one hand but buy oil from them or are involved in the oil development or establish a joint venture to do business together. We have various businesses. In such multiple relationships, we provide multiple functions to customers. Only general trading firms can do such a thing. When we looked back on our development history, we flexibly changed our functions and roles according to the development level of the Japanese economy. In various times, we always think about what *raison d'être* is and improve our function to expand the infrastructure of business. In such situation, we actually experienced various learnings little by little therefore we have accumulated a large amount of information through such history. We have 200,000 business partners and have global networks of 145 overseas offices in 95 countries. We call such network, the past experiences, customers' trust, business know-how, customer contacts, as "Business infrastructure". If we suddenly try to establish these things from zero, you can understand it's like a pie in the sky.

**Interviewer:** Taking an example of road, you mainly increase to build much more road more and more or such pipe until the 1970s.

**Mr. Miyahara:** When I looked it back, I just did such things. I didn't intend to do it at that time.

When the 21<sup>st</sup> century came and I looked back on the past 30 years, I see what I did as one part of my history, however I decided to do my best according to the development of the Japanese economy, so I want to explain it a little more in detail. Please look at the Fig. 1.

You can see a word in a circle "Continual strengthening business infrastructure." It means business infrastructure such as global network, global relation, intellectual right and trust. We have the ability of risk management, the use of IT, providing financial service and establishing logistics based on it. We make organizational and strategic integration of these two points to create new value or request customer's needs as a general trading company.

I'm sure it is very difficult to explain what general trading firm to people who don't know us.(He laughed.) They think we just do various things and don't know what special point we have. I thought about various things when I was President. The core competence of the firm was the integrated corporate strength. As a result, people said what was called the general company no longer had competitiveness. In the 1970s, there were many conglomerates in the U.S. However, they didn't function well. Therefore, American people call it conglomerate discount. In the times of "Choice and Concentration", they don't understand where we as a result focused on. They think like that, so we explain the previous business infrastructure, function and the core competence of the general trading company is the integrated corporate strength. We make overseas investors understand that we'd rather be conglomerate premium.

However, as I told you before, we couldn't absolutely establish such infrastructure overnight. We needed time to do this. and therefore have a long history. We added different functions that were needed to survive as Japanese trading firm in accordance with the development of the Japanese economy. It's a treatment of the changes. As a result the trading firm changed or dealt with the changes with the times, so we could have such things as intellectual assets, experiences and network.

Therefore, although you asked me the reason there is no trading firm in the U.S., it's because this general business firm can't be established overnight in the U.S. In Asia, for example, Mahathier Mahamad, President in Malaysia tried to make a trading business firm after he learned various things from Japan. However, even if he hires people and starts it, he can't do it soon. As a result, it might be strange that general firms could survive only in Japan. It's a very unique business style and still exists now in Japan. What will happen in the future that is another issue. We made you understand that we changed our functions and treated the change of the times in accordance with the development of Japanese economy so that we can survive now.

### **Pull over the general ability**

**Interviewer:** I see. As you said before, most of American companies such as supermarket or steel that used a word of general as its corporate name could be unsuccessful except for GE in the U.S. In Japan, food supermarket and professional supermarket would rather do good business than general supermarket recently. Whenever I hear about the story, I find only to see the one side of thing but there are two ways of good and bad in everything. I understand either good or bad things will appear depends on the times.

I think the integrate corporate strength will be helpful in any cases but how you maximize advantage of the strength would rather be important. What kind of devise do you make for that?

**Mr. Miyahara:** When I say it in easy-to-understand way, in order to maximize it, we have to have good teamwork. We have about 5,000 employees. You just said GE was an exception, Jack Welch, the former Chairman always talked about the importance of being boundaryless, which meant to break a wall or threshold in the company. This is the same thing for us. We also say teamwork is the most important. The most important thing to maximize teamwork is all employees share the same sense of value. We have clear action standard such as corporate philosophy and whom we evaluate as a company.

**Interviewer:** It's SC (Sumitomo Corporate) Value, isn't it?

**Mr. Miyahara:** Yes. It's SC value. We decided such thing because we showed how we maximized the general power as you said. We cultivated staff members very hard and the top increased to have opportunities to directly contact with them including team leaders level, although I'm a chairman now. Everybody does his best to share SC value.

**Interviewer:** Did you start such activity when you were President?

**Mr. Miyahara:** Yes.

### **Make a drastic cut with reform package**

**Interviewer:** I often find “Reform package” on various articles of your company. It was one of your jobs when you were President. You achieved great jobs, so could you introduce it a little more in detail?

**Mr. Miyahara:** I became President in 1996. The bubble economy collapsed in 1992 and the whole Japanese economy was in severe condition. General trading companies had various problems in some businesses because they expanded their business and before they knew it they got carried away by such situation. I wanted to start restructuring in 1996 at the same time when I became President. However, there was an illegal deal before my inauguration. Therefore, we had to solve this problem first. This was so big shock as if we tilted toward the severe condition. It took about a year to solve it. I thought about how to carry out corporate restructuring while solving the problem. I adopted an idea of applying “Risk Return” to our business, which was what the American financial institution based business decisions on. I thought to make this idea a common rule in the whole company.

This was because we did various things in our history as I told you. We had various ties with our customers. For example, we say” We will stop to do this business because of being unprofitable now.” A person in charge could say, “I continue to do it for a long time and owe it much obligations therefore we can’t stop it although we have no profit now.” We had various cases like this. We have to reorganize the company not with such emotional decision-making standard but with acceptable reason to anybody.

Therefore, we consulted with an American consultant of AT Kerney to make the way to judge risks including their opinions. We started corporate restructuring in 1998 based on this.

We implemented “Business portfolio analysis” in the whole 119 departments and all investment companies with a matrix by growth and risk return before the start of reorganization.

**Interviewer:** American companies including GE introduced the way to see growth and potential of business with common rule in the 1980s. However, there were two problems. The first was how they sorted out their business at that time. I’m as a business scholar very interested in how you dealt with it at that time.

**Mr. Miyahara:** We had already separated the organization by business division, head quarter and department. However, we did multiple businesses in headquarters so we separated the core business by department. If we did so, we could find more about how we changed the way to separate and changed it in various ways of the

reorganization.

For example, we had a project of electric power plant and business relating to energy such as IPP in the Machinery Electric Group. We integrated Energy Group and a part of Electric Power Dept., because we had more business opportunities in this field due to easing of the deregulation in Japan. Or we developed non-ferrous copper mine in the Nonferrous Dept., but development of copper mine was totally different from the sales of non-ferrous product therefore we reorganized the Dept and integrated it to Material Development Section of other Dept. We reviewed the whole organization like this.

**Interviewer:** After the reform package, you changed the way to separate the division.

**Mr. Miyahara:** Yes. When we separated the core business of the 119 departments at that time, we discussed it with data of the past three years. It was because we had good and bad condition of business and couldn't judge it on a single-year basis. Even if we are unprofitable on some business now, it might have a temporary special reason. That's how we decided to separate departments. After that, we always review the way to separate the field.

**Interviewer:** The second problem is people often say that it's difficult to keep motivation of people who belong to the reduced or withdrawn division by the reform package. What do you think of it?

**Mr. Miyahara:** No. I don't think so. Since we are a trading company, we have various businesses for example business relating to the information technology industry is growing rapidly. We need more staff members there. We have so many people from various Dept. in our company. Maybe the number of people especially from the steel Dept. is the most. We can do such thing because we are a general trading firm. We can make the most effective use of our human resources. We have so many great young people that they can adapt themselves in the new field and play active roles there soon.

**Interviewer:** It means you transferred people who worked in the reduced and withdrawn field of the company to the more growing business department.

**Mr. Miyahara:** We often transfer our staffs actively. At the same time, we don't force them to move off to other Dept. For example, some people might want to move from the growing Dept. to other Dept. to challenge other business field. We have free agent system. Some people go to other departments on their own will. On the contrary to this system, we also have "Post Challenge System" which is an in-house staff recruitment system. If there is any available post in our company, anybody can try to take it up.

**Decide the value for the company and penetrate it**

**Interviewer:** I would like to ask one more thing. It's very difficult to decide SC value. Could you tell me an extensive story about it?

**Mr. Miyahara:** We originally have 400 histories and carry on the Sumitomo's unbroken business spirit. The first core of the spirits is trust. The second core is authenticity and "Prohibit to pursue profits in the second business." "In addition to that we have taken changes in advance and deal with them in accordance with the changes of the times." We made corporate philosophy based on them so that the current young staff members could easily understand it. For example, we also add an environmental issue as the current challenge. We also add an item of respecting people because we didn't clarify it in a word before. We made a team with our staff members and added new ideas or changed it to the easy-to-understand expression through the discussion. Furthermore, we had to decide it to make it understandable globally because we have a global network, we set the standard to make non-Japanese easily understand and made SC value based on the Sumitomo business spirit.(See figure 2.)

Although we weren't aware of it at all, GE also made "GE Value" same as ours although the contents are different.

We didn't force our staff members to make the value but completed it throughout discussions in the process that I told you.

## **Figure 2**

SC values (for top management and managerial level)

1 Integrity and Sound Management: To comply with laws and regulations, while maintaining the highest ethical standards.

2 Integrated Corporate Strength : To Create no boundaries within the organization; always to act with a company-wide perspective.

3 Vision: To create a clear vision of the future, and to communicate to share it within the organization.

4. Change and Innovation : To accept and integrate diversity in values and behavior, and to embrace change as an opportunity for action.

5. Commitment: To act responsibly and with initiative to achieve organizational objectives.

6. Enthusiasm: To act with enthusiasm and confidence, and to motivate others through such action.

7. Speed: To make quick decisions and act promptly.

8 Human Development: To fully support the development of others' potential.

9. Professionalism : To achieve and maintain high levels of expertise and skills.

**Interviewer:** I saw some of your documents. Did you see copper mine of Besshi at this time?

**Mr. Miyahara:** When I was Vice President, I went there for the first time. Although I sometimes heard and read Sumitomo's business spirits after I entered the company, when I went to such ancient site, I could feel it

for myself and understood them. If you have any opportunity, I'd like you to visit there once. The copper mine had no trees because of pollution of mining copper. We had to return it to the original condition, so our forerunner planted trees there. It's covered with dense green forest now. We made no profit from the business however I was so impressed that business was such like this and I realized I had to show everybody the worksite. Therefore when I became President, I told everybody including new executives and people who never been there to visit the place. I included the tour in a training program for executives. I wanted them to deeply understand Sumitomo's business spirits. After that, everybody said the best training was the copper mine tour in the program. One eye-witness is worth a thousand words.

**Interviewer:** Do you make any other devise to penetrate Sumitomo business spirits or SC value? For example, as you told me, you implemented the tour. Is there any other programs?

**Mr. Miyahara:** We have multiple observation system with the SC value. The purpose is rather to develop human resources than penetrate the value. In the system, several juniors check their boss how they work from various sides based on the items of SC value. By doing so, juniors have opportunities to think about how they work based on SC value every year. This also becomes an opportunity to think about the business spirits of Sumitomo.

**Interviewer:** Are there various contents about what you said such as integrity and sound management and prohibiting pursuing easy gain in the second business and taking changes in advance in the check point of multiple observations?

**Mr. Miyahara:** Yes. It includes everything. It has nine items in detail. All employees keep a card where the items of SC value are described and sometimes reflect back on their action. The junior staffs check their boss based on the items and input "N", need to improve, or "G", good on the check list of the Intranet. The interesting thing among the past results was almost all of them overwhelmingly check their boss as good in the first item of trust and authenticity of SC value. Meanwhile, the worst one is vision. I always tell leaders to clearly inform their juniors of their vision and communicate with them well. In order to make them recognize it by themselves, we did such observation check system. And concerning about general personnel evaluation, we also include SC value of the evaluation items. I mean we finally evaluate them with the matrix of the both quantitative side of whether they achieve their goal set at the beginning of the term and qualitative side whether they work well based on SC value.

### **What company do you want to make?**

**Interviewer:** I see. In relation to the SC value, when I hear a story about the vision, I want to ask you more

questions. When you became President and summarized such value, what company did you think to make? I think the clearer or more extensive vision or objective of how you change the company you have, the clearer you can achieve it, so I want to ask you about it.

**Mr. Miyahara:** I hope everyone can continue to work with vigorous energy in the company. This is the most important thing. In such condition, the important thing for the company is to achieve numerical target clearly. Mr. Oka, President said that “he wanted to make a company with enthusiasm and energy.” “He wanted to an exciting general trading company.” Although he expressed it in various ways, he always said the same thing.

**Interviewer:** You mean each staff member enjoys working every day.

**Mr. Miyahara:** Yes. A company dominates a large part of our life and I think it’ll do so in the future. When we see an American company, the greater company it is, the longer its employees tend to work with more pride. Of course, I want to make a company where our employees can improve themselves and become talented and have great skills even if they want to change their job. I think it’s an attractive company for young people. It’s important to enjoy working. American often says, “Do you enjoy your job?” When we went to American offices, we often asked young employees, “Do you enjoy working “? It’s the same for Japanese. Job doesn’t mean to suffer from working like a horse. However, in order to enjoy working, we have to know it well, so I tell young staff members to study hard enough to enjoy working. We have something difficult to overcome when we started to work.

### **Efforts in the consumption distribution and information industries**

**Interviewer:** I really understand everybody has something to live for and enjoys working. By the way, according to your documents, you narrow down the focus on the fields of retail sales and distribution and information industry. We might have an image of the 1970s for the trading firm before. What do you think of it?

**Mr. Miyahara:** You might misunderstand the point. We don’t narrow down the focus of business field. All fields have the core business to support our company. In order to maximize the general power of core competence, all business fields are important. Of course, we implement severe “Choice and Concentration” in all fields. Retail sales and distribution and information industries are comparatively new field and we place them as strategic field.

**Interviewer:** I see. In your documents, you described core competence and core business in each field. Seen from the conventional image of trading company, we still have an image that you mainly focus on heavy

industry and fly round the world.

**Mr. Miyahara:** We're doing so in some ways. For heavy industry, there are still lots of opportunities in the world. Asian countries don't have enough infrastructures especially the Middle East. Therefore, we continue to fulfill our functions in such field and challenge new business. For retail sales and distribution, Japan is the largest consumer in the world. When we enter the market and develop downstream business, we can expand upstream field. When we develop various food resources with overseas manufacturer, it's very meaningful that we have our own field of retail sales and distribution. Of course, it's important to make a profit in the downstream industry, but we expect more synergetic effect as the integrated corporate strength in other field. Information industry is exactly promising business field. Especially technological innovation is very speedy. When we forecast the demand in the Japanese market, we general trading company bring the state-of-the-art technology from overseas to Japan and start business as new venture while maximizing our skills. At the same time, we try to do both IT business and introduction of IT business to make the conventional business efficient.

**Interviewer:** You do business by selling and buying products to make profits before but you direct to introduce value added style that is valuable and creative style for the future. Since one of the original resources takes root in consumption or retail or life, you'll develop the routes clearly.

I mean you buy and sell existing products before but you think about all processes from what products you can sell and develop new products to sell them to consumers in order to create the value and make a profit. You try to introduce new style.

**Mr.Miyahara:** You're almost right. For example, we are doing business to import pork with Smithfield, a major company of the U.S. Most Americans know the company very well. It is very famous company. We buy our pork from the company and we deal with all processes after the shipment. Tastes of frozen and chilled pork are totally different. We import chilled pork to Japan by the original distribution system.

I went to a factory of Smithfield in the South Carolina before. We carry it out by truck from South Carolina to Seattle. After that, we import it by container to Japan. We manage all of this process by computer.

In such point, all processes after slaughtering pigs are value-added services. The reason that we can do this is because we have sales network for the downstream industry. Of course, we don't have to have all networks by ourselves. For example, we sell a large volume of pork to Ito Yokado. However, it would be better to have our own sales network as a tool to develop such products because we can gather information directly from customers and people on the worksite. It has been more advantageous.

**Interviewer:** It sounds interesting. I heard about a story of Toyota. It tries to manufacture all products by itself. Your idea is the same case as this.

**Mr. Miyahara:** It might be so. Toyota is really great in some ways.

**Interviewer:** Yes. And from your story, I think information industry isn't the purpose but means of business. I mean we can't live without the information industry, so you mean you have to do the business because you might lose a part of integrate corporate strength unless you enter the field.

**Mr. Miyahara:** I told you we had two things relating to IT business. The first thing is to do IT business itself. For example, we do business of cable television and satellite broadcasting and telecommunication. Such business is so-called information industry and IT itself is the purpose of business. The second thing is to do business with information technology. For example, our Machinery and Power Plant Dept. does business from purchasing several hundreds of parts by SCM from assembling to their delivery to customers. We can't do it unless we make active use of IT. The previous pork business is also the same case that we introduce IT to the conventional style of business. We have two cases of doing IT business itself and improving productivity by information technology.

### **Can trading companies do retail business?**

**Interviewer:** For life style and retail sales field, other trading companies expand their business in the life style and retail sales field which is often said as downstream or vertical integrated strategies. I'd like to ask you your personal opinion. People often discuss whether trading firms can do retail business. They always say the only successful business is "Summit" of you company. What do you think of this?

**Mr. Miyahara:** Trading companies can do anything once we try to do it. Media have a fixed idea that we sell products in bulk therefore they write articles ridiculously such that we are not able to sell soap or pair of shoes. It's wrong. Of course not anybody can do retail business overnight. However, we can do so with our teamwork and knowledge..

**Interviewer:** You mean if you cultivate such human resources you can do the business.

**Mr. Miyahara:** Yes. If we know the business concept clearly, we can do anything.

### **Young people, try to establish your own identity and enjoy working!**

**Interviewer:** This is the last question. We student of Kobe University also read this interview. If you have anything to make young people think about or any opinions for them, I'd like you to talk about it here.

**Mr. Miyahara:** The first thing is to enjoy working. In order to do so, I would like them to study it until the level that they can enjoy it.

The second thing is to establish identity because we live in the times of globalization. There are many scholars who say only borrowed opinion. Such scholars like a translator say “America is like this from the viewpoint of the U.S”. I always tell business scholars that many of them say as if they understand the actual condition of Japan and Japanese management regardless of if they don’t know it. We have to show clearly what identity we have otherwise we will be ignored in the globalization.

By the way, Japanese top students tend to work in large companies but many of those outstanding students in the U.S don’t work in large companies but instead go to venture companies to make the most of their skills.

There was a joint meeting between government and private sectors of the U.S and Japan. Respective eight people in the both countries, 16 people in total joined there. I was in charge of comparing business environment between the U.S and Japan. American people understand it very well. They said Japanese top people worked in major companies but many of top Americans went to venture start ups, therefore matching of Japanese major companies and American venture companies would make for the strongest company.

**Interviewer:** American venture and Japanese major companies are the best match.

**Mr. Miyahara:** I’m sure it’s true. We do various ventures such as nanotechnology or biotechnology. People in charge really study them in detail to the professional level and connect it to their business. I think it good we first do such venture in a major company. Japanese companies gradually might become an American style venture.

It is important to make such infrastructure and the Ministry of Trade, Economy and Industry makes effort to do it. Therefore major companies make good use of great human resources to develop ventures.

**Interviewer:** You mean Japanese major companies intend to send young people to the field of venture.

**Mr. Miyahara:** Yes. I call a trading company “Venture Capitalist with solution” “With solution” means that trading companies have already considerably implemented feasibility study before investment. General trading companies have all necessary functions such as to add capital to the business or send human resources and marketing. In that sense, we are different from those of Silicon Valley. Therefore please tell venture-oriented people to come to general trading companies and perform actively.(He laughed.)

**Interviewer:** Thank you very much for giving us so much of your precious story.

[Postscript]

A new building of Sumitomo Corporation located in Harumi area was built last year. It is a very great building with an image of business man who has the whole wide world at his feet. It was raining on this interview however the Sumitomo Corporation overlapped with the building towering over a cloudy sky. Mr. Miyahara was sharp in his talking and comfortable discussing any contents because he took the leaderships in overcoming corporate crisis soon after the 1990s. He is the top person who can explain his company with his expression. He also has not only ambitious vision but also can solve problems realistically. He gives such images to us. Business environment of trading companies as well as other Japanese companies is very severe. Sumitomo Corporation would overcome various difficulties without losing sense of direction even in such conditions because it cultivated the top that could achieve it and would develop in the future. We could understand deep management thought of general trading companies and Sumitomo Corporation on this interview.