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Top Interview: Insight of Top Management

Interview Vol. 48

**Management of a Private Railway to Increase the Value of the Areas along the Railway and to Develop the Areas along the Railway**

**Hankyu Holdings, Inc. President and Representative Director**

**Mr. Kazuo Sumi**

1973: Graduated from School of Political Science and Economics, Waseda University

Joined Hankyu Corporation

1997: Distribution and Distribution Control Manager of the Above

1998: Railway Planning Manager of the Above

2000: Railway General Manager of the Above

2002: Railway and Control General Manager of the Above

Managing Director of the Above

2003: President and Representative Director of the Above

2005: Hankyu Holdings, Inc. President and Representative Director (Present Post)

Hankyu Corporation President and Representative Director (Present Post)

“Hankyu Toho Group” has grown into a large corporate group that has about 32,000 employees, by the corporate management based on unique ideas of Ichizo Kobayashi, the Manger of Mino-Arima Electric Tramway Company, which is the origin of Hankyu Toho Group. And it consists of three corporate groups, “Hankyu Railway Group”, “Hankyu Department Stores Group” and “Toho Group”. Among them, “Hankyu Railway Group” is the core. With the railway business as its core, it planned various business developments centered on the areas along the railway called “Hankyu-plains”. The recent burst of the bubble economy also greatly damaged Hankyu Railway Group. However, it recovered from the damage at settlement of accounts in the business year ending on last March. In April this year, with the intention to bring the whole abilities of the groups, it changed to a pure holding company system with “Hankyu Holdings, Inc.” as its holding company. Under the umbrella, they are in the stage where they

should plan new business development for the future and aim at maximizing its corporate value by rearranging and reorganizing each group centered on “Hankyu Corporation”, “Hankyu Express”, and “Hankyu Hotel Management”.

In this interview, under such circumstances, we asked President Kazuo Sumi, who is in charge of “Hankyu Railway Group,” about his opinions on the company’s strategic assignments and thoughts behind them. At the same time, we asked him about his experiences and principles through building his career that have made him to have such opinions and thoughts.

### **Private Railway Management and “Business Model” of Ichizo Kobayashi**

**Editor:** When we talk about Hankyu, we cannot avoid talking about Ichizo Kobayashi who established a “Business Model of Private Railway Management” that promotes the railway business and the development business along the railways in an integrated manner. On one hand, some say the era of Developer Style that combines the railway business and the development along the railways is over.

**Sumi:** The so called “Kobayashi Model” is, in short, to place great value on the areas along railways, I think. In other words, it is not simply placing railways, but the company will grow as the areas of the railways grow.

After the burst of the economic bubble, some said, “The business model of private railway management by Ichizo Kobayashi is over”. However, I think it is wrong. There was the era when it was an effective way that people gained a mass of land ahead of time and enjoyed the advantages of being the developer by placing railways. I think such era is over. However, Ichizo Kobayashi actually did not do such a thing much. It is true that he developed various businesses along the railways. But in the aspect of land development along the railways, other people including us did so after Kobayashi.

Kobayashi provided good quality residential areas including Ikeda Muromachi Residential Area. At the same time, he tried to have a cultural taste such as Takarazuka Revue and he built terminal departments at the terminals considering the convenience for the customers. He was basically more eager to take good care of the

areas along the railways and to increase the brand image of the areas along the railways by providing high quality residential areas, attractive business facilities, and culture such as Takarazuka Revue, rather than expecting the value of land to go up. And by doing so, he wanted to increase the number of people who would consider living around the areas along the Hankyu railways. I think it is an important way of thinking for private railway companies for the future too.

■1

Ichizo Kobayashi (1873 – 1957). The founder of Hankyu Group. In 1907 he founded Mino-Arima Electronic Tramway Company, the forerunner of Hankyu Corporation, Mino-Arima Electronic Tramway Company and was appointed to Executive Director. After the company was renamed Hanshin Kyuko Railways in 1918, he was appointed as president. During that time, in order to collect passengers he implemented a unique private railway management system based on his unique ideas such as the development of the residential areas along the railways, opening terminal department stores, opening amusement parks, and founding Takarazuka Choir (currently Takarazuka Revue company). Later, he was also appointed as president of Toho and Tokyo Electric Lights (currently Tokyo Electric Power Company) and also became a minister of commerce and a minister of state.

### **Shift to “Hankyu Holdings, Inc.” and its Structure and Enhancement of Group Strength**

**Editor:** On the 1<sup>st</sup> of April, 2005, you shifted to a pure holding company, “Hankyu Holdings, Inc.” Can you talk about the company reorganization and the business restructuring of “Hankyu Railway Group”?

**Sumi:** We will have the 100<sup>th</sup> anniversary in 2007, two years from now. Before the year comes, we are at the stage of finishing up creating a new group vision now. Our shift to a pure holding company is closely related to this.

Previously I mentioned that the ideas of Ichizo Kobayashi were still effective now, but it does not mean we should be doing the same thing as he did back then. Business development of Ichizo Kobayashi was to split a company up into new spin-offs when one

business became big enough to be independent. Moreover, he intentionally made a weak relationship between the split-offs, in order for the split off take their own directions based on their own decisions. A good example of this relationship is the relation among “Hankyu Railway Group”, “Toho Group” and “Hankyu Department Stores Group”. Apparently people think that the last two groups are the part of Hankyu Railway Group. However, as you know, the shareholding ratio is about 20% in Toho but about 2% in Hankyu Department Stores. However, Kobayashi did not think it would be acceptable that all the groups were totally separated. He was aware of the importance of getting together if something happened. However, just relying on each other does not make the group stronger, even though they get together. So that is why he applied the current system. As a result, combining the sales of Hankyu Railway Group, Hankyu Department Stores Group and Toho Group are 500 billion yen, 400 billion yen, and 200 billion yen respectively. It has become such a group with the total sales of a trillion yen.

Even with this way of managing, I can call it a group management with centrifugal force, if there is a charismatic manager ■2 like Ichizo Kobayashi, the groups will get together easily and the manager can give an order, like “Do this”, when they are taking inappropriate directions. The groups function well in this manner.

#### ■2

Theoretically, charisma is a concept that was created in M. Weber’s Sociology of Domination. Charismatic domination is appropriate at the time of revolution and creation against traditional domination and legal domination. At the same time, it is difficult for charisma to be a part of daily life, so it is not appropriate during the stable period.

However, under the group management with centrifugal force, if not properly handled, the strength will be dispersed by everyone trying to go different directions. We do not have a charismatic manager like Kobayashi. Thus, we reorganized the company so that we could have a manageable structure in order to bring out the entire strength of the groups. But I do not use the word, centripetal force. That is because it becomes an image that we get the parent company and subsidiaries together by the centripetal force.

The settlement of a company as a single organization does not mean much anymore since the era of consolidated accounting has started. It is the era that the strength of the consolidated Hankyu Group as a whole is evaluated by investors or the society. The

reorganization considered that as well.

There was already a trend towards an era of consolidated accounting groups because of the change of the financial accounting system. Besides, because of the decline in land prices, we needed an appropriate preparation for combining the groups with the railway group. Last fiscal year, ending on 31<sup>st</sup> March, 2005, we had finished dealing with that, so on the 1<sup>st</sup> of April this year at last we shifted to the pure holding company structure.

The meaning of the pure holding company is to bring out the strength of the whole group. Until now, Hankyu Railways was in charge of four businesses: the railway business, real estate, entertainment such as Takarazuka Revue and retailing. Apart from these, Hankyu Travel International is in charge of travel and international cargo service. And there is the hotel business. The aim of this reorganization is that under the pure holding company we will link the six core businesses, “urban transportation”, “real estate”, “travel/international cargo transport”, “hotel”, “entertainment/communication” and “retail” and bring out the total strength as Hankyu Railway Group. We had the subsidiaries such as Hankyu Travel International under Hankyu Railway, but we thought this parent-subsidiary relationship was not good.

In addition, this pure holding company structure can function well in terms of the three issues that have currently discussed in the public: governance, compliance and risk management. From this year, the companies in the group cannot finance on their own. Hankyu Holdings does all the financing for all the groups, and then it distributes the budget to each business considering the management plan of each company. Thus, the incoming money is unified as a group. An aim of this is to reduce the cost related to financing. However, more than that aim we are concentrating more on the governance and compliance or risk management.

However, it will be a problem if Hankyu Holdings controls everything. Although the conclusive decision of the yearly management plan is made at the Holding's board of directors meeting, we try to transfer authority of the approved plans to carry it out as quickly as possible.

As unifying the “incoming” money, we try to devise “outgoing” money too. Actually we have a company called “Hankyu Business Associate” that deals with accounting, human resources and information, in addition to the six core businesses. This company holds all the businesses' account books. As a result, we can monitor the “outgoing” money.

We believe that it is very important to keep the record of “incoming” and “outgoing” money as a group through our experiences.

This time, we combined the hotels managed by Hankyu Railway, Hotel New Hankyu and Daiichi Hotel into one group called, “Hankyu Dai-ichi Hotel Group”. Hotels must be periodically renovated, but it would be hard to do so when we had them separated. If we have them together, we can renovate these hotels systematically by assigning priorities. But it also means that there will be many hotels that have to be in a waiting list for a long time. The important thing is transparent decision-making. If we want to persuade the hotel managers to agree with investment in other hotels this year, the transparent decision-making process is very important.

Using recent terms, decision-making of selection and focus is important for not only hotels but also the entire Hankyu Holdings Group. Therefore, the important thing is to increase the transparency in the decision making process at these Hankyu Holdings Group management meetings and the board of directors meetings. So from the shareholders meeting last year, we have representatives from subsidiaries such as hotels, real estate and travel as directors of the parent company. I think we should make the decision-making process as transparent as possible and increase the satisfaction of the entire group.

**Editor:** How did the relationship between Hankyu Holdings, as the pure holding company, and each company change? How are those companies that used to be considered as the subsidiaries of Hankyu Railway, for example, Hankyu Travel International or Hotel New Hankyu, now considered after this reorganization?

**Sumi:** Hankyu Holdings is, basically, an organization that treats Hankyu Railway Group as if it was one company. Thus it has all the functions it needs to implement businesses. So it does not have a sense of being the parent company. Hankyu Holdings is necessary to bind Hankyu Railway Group together and bring out the total strength and to show the shareholders, analysts and investors the total strength and the policies. It is not the parent company.

Those ex-subsidiaries of Hankyu Railway such as travel and hotels became fellow subsidiaries under Holdings. For example, Hankyu Travel International has not been listed, but the difference from being a subsidiary of Hankyu Railway is that it is directly

related to Holdings. Holdings that binds all the groups together sends messages to the shareholders, so from that point of view it is said that Hankyu Travel International has gotten closer to the shareholders.

### **Increase in Value of Areas along the Railways – Business Development** **specialized Areas along the Railways**

**Editor:** At the beginning you told us that, if you had to put it simply, “Kobayashi Model” in terms of private railway management is to take good care of the areas along the railways. Related to that, what do you think of the measures to energize the areas along the hankyu railway?

**Sumi:** I said, “Ichizo Kobayashi Model is not over yet”. But the management environment is different between now and the time when Ichizo Kobayashi developed the business. Its symbolic example is the shut-down of “Takarazuka Familyland”. We, the baby-boom generation, had 2,500,000-2,600,000 primary school students of the same age. However, the number of the students now is about 1,300,000, a half of what we had. This happened to be the same change in number who came to Takarazuka Familyland. Of course, the customers were not only primary school students, but with this decline of the population of primary school students, an amusement park business is in a severe situation. I do not think the number of the customers will skyrocket and regain profitability.

Also you cannot imagine from now what it looked like around Takarazuka when Familyland opened. There were many agricultural fields and hot springs, and Muko River was running. That city has become a city of more than 200,000. And in the center of the city, Takarazuka Familyland was located in the space of 150,000 m<sup>2</sup> with zero population at night. We had to say this was not fit the times we live in. So we thought we would change this space into something suited to the times.

However, we did not want to destroy the image of the city where Takarazuka Revue is located or of the high quality residence. So we created “Takarazuka Garden Fields” after Takarazuka Familyland. In “Takarazuka Garden Fields”, the botanical garden was changed into English Garden (English-style natural garden “Seasons”). It also has

pet-related facilities (a pet shop “Foby” and a pet park “Dog Run-Do”) as something that gives relaxation to people and is required for a society with an aging population and a low birthrate. There is also “Babies"R"Us” with baby goods, a fitness club, “Tipness”, Total Housing Exhibition, “Hankyu Takarazuka Housing Garden”, an Italian restaurant, a Chinese restaurant and an apartment at the back. So it was remodeled as a space with people at night, without losing the image of the city.

We changed “Umeda Koma Theater” to “Umeda Arts Theater” in order to fit the times. Apparently Koma Theater was the last job Ichizo Kobayashi did, but it had become very rare to fill up 2,000 seats throughout the month by presenting sentimental Japanese ballad, *enka*, and theatrical drama, *engeki*. So we decided to change the structure that was difficult to use for anything other than *enka* and *engeki*. We prepared audio equipment such as sound reflectors so that it would be used for not only *enka* but also classical concerts, Takarazuka Revue, and musicals. It was remodeled to be used for programs that fit the times.

We have a different factor in terms of reconstructing Umeda Hankyu Building where Hankyu Department Store (Umeda original store) is located. As you know it was 1929 when Ichizo Kobayashi built the first terminal department store in Japan. It is 74 years ago. After that, we remodeled it many times, but it is an old building, and considering the durability we thought it was time to reconstruct it. We also needed to deal with a new and tight competition in the retailing business and to meet the new needs for department stores.

However, it was probably “Act on Special Measures Concerning Urban Renaissance” enacted in 2002, that made us decide to reconstruct the building. As you know, by the temporary legislation with a 10-year term limit, there may be a possibility that the local government allows us to have more floor-space ratio if we have facilities for the public as well. We also had finished dealing with a mess from the bubble last fiscal year and reorganizing the groups. It was a good timing for us too because we were thinking to positively invest to facilities and equipments. So we talked with Osaka City.

As a result, with a short period of time, and maybe the location that is the No.1 in Kansai helped, the floor-space ratio that they gave us was 1,800%. That is 80% increase of 1000% which is what we have now. At the moment, we have the building on the area of 17,500 m<sup>2</sup> and the total floor area of the building is about 10 fold. The area will be 1.8



fold increase.

By this, Hankyu Department Store with about 60,000 m<sup>2</sup> will become the store with a little bit over 80,000 m<sup>2</sup>. That is 40% increase in the floor space. In addition, there will be an office building with 100,000 m<sup>2</sup>. This area is the most expensive land in Kansai, and the land price stopped dropping last year and this year. We can build a new building on such a place. Osaka City also handled the process very quickly, so we were very thankful for that.

### **Railway Business as Core Business**

**Editor:** It has recently been called “Urban Transportation”. Perhaps, the railway business as a core business of Hankyu Railway Group is in a difficult management environment due to the issue of the progression of an aging population with a low birthrate, competition cars or the competition with JR. How do you see the future? Kansai once was called the “Kingdom of Private Railways”. Please excuse me to use the word “once” in front of you, Mr. Sumi. But as if having lost in a speed competition against West Japan Railway Company, all the private railway companies in Kansai started to increase the number of stations where limited express trains stop. In fact, the number of passengers has decreased since about 1990. Especially after the Hanshin Great Earthquake, it is said that a part of the passengers changed to JR. Can you tell us your opinion on that?

**Sumi:** It is true that the management environment is difficult. I think the future of the railway business in 10 years and 20 years depends on how much of our efforts, including the reenergization along the railways, will have produced results.

It does not matter how convenient cars are, not everyone can drive easily, and it is not always convenient. Even though the other railway line is faster than Hankyu, there are many who say Hankyu is faster considering the total time from their house to their destination. We think that it is important for us to give our customers living in our *service catchment area* transportation with responsibility and a reasonable price. We function as a part of infrastructure of the whole society, so we should have a safe, precise and most effective transit system.

We can definitely say that the reason why Hankyu Railway Group still exists today, 100 years after its foundation, is because of the railway business. As it still earns a half of our operating profit, there is no doubt that it is our backbone. I mentioned previously bringing out the total strength of six core businesses as a group, but in the profit aspect, the backbone will be the urban transportation business centered on the railway and the real-estate leasing business for a little while. The company experienced various things for 100 years, but the reason why we are still alive here is that railway and the total urban transit division has been strong, and the real-estate leasing business has been good. These two are the main reasons. For example, Takarazuka Revue, of the entertainment division, was deeply in debt before. I still do not know if we can call it a profit center, but it stands on its own feet now. We will make more efforts on it, but it stays the same for a while. Therefore, it is certain that the railway is the backbone of our group.

In order to make the railway business work, we developed the residential areas, created Takarazuka Revue, built Hankyu Department Store in Umeda for wives to shop in Umeda, and also built a baseball stadium in the past. Ichizo Kobayashi took such measures to activate demand during off-peak hours, and they grew as a whole. So I think we should do the same. Indeed, the management environment around the railway is very hard because we have the issues of the decreasing population with an aging population and a low birthrate, motorization and so on. After all, I think we should return to the origin and re-energize the areas along railways and demand of transportation will be created there.

I talked about Takarazuka previously. On the site of Nishinomiya Stadium, Hyogo Prefecture will build “Hyogo Performing Arts Center”■4 this fall. In this area, like Takarazuka, it has culture. So in addition to that, we are in the progress of developing quality apartments, attractive business facilities such as Hankyu Department Store, and entertainment facilities such as cinema complex. Not only these big development plans but also an accumulation of efforts to reenergize the area along the railways can create railway and transportation demands. This is the basic idea.

If the number of people who say that they want to live along the Hankyu railway lines increases even by one person, as a result, they become our passengers. We should keep making an effort for that, just like Ichizo Kobayashi. It will be a repeat of what I have

been telling you, but I think that is the only way.

In addition, we will make an effort to do something about transportation to a train station. It is so-called “end transportation”. For example, it is impossible for us alone to organize things for buses and bicycles so that they can get to our stations easily. I want my people to discuss a little more about how we could transport a number of people smoothly.

What we could do is, for example, we could pick up more passengers with smaller buses. We also do not know what to do with the illegally parked bicycles around stations. We prepared bicycle parking lot but it is a never-ending game. So I have been telling our passengers, “Please do not buy your own bicycle. We are going to have them ready for you” since a long time ago. It is more efficient to rent than to own one. We have been sending a message, “If you purchase a parking spot for your bicycle, it costs you, for example, 2,200 yen per month. You only have to pay 2,000 yen per month for a rent bicycle, so please do not buy a bicycle”. We prepared bicycles with automatic assistance at such hilly places as Rakusai-guchi (Kyoto line). We are making an effort like that. Our passengers do not really make use out of this service, but gradually they are using our service.

In addition, at the same time the railway itself is making a positive effort like making IC cards and creating new cars.

■3

It is an area where the railway line exists and there are people who use the railway station in a daily basis.

■4

Hyogo prefecture is planning to open it as a “public theater” that will create itself and be created by the prefecture in October, 2005. It aims to be a place to create and exchange excellent theatrical arts. <http://www.gcenter-hyogo.jp/>

## Introduction of IC Card “PiTaPa”

**Editor:** If you talk about IC card, you are talking about “PiTaPa”, aren’t you? Unlike the preceding IC cards, “Suica” and “ICOCA” of JR, the IC cards of the private railways are post-paid system■5, aren’t they...?

**Sumi:** I think the network is important for IC cards. It was also the case when we had the magnetic cards. In 1992, we started the stored fare. In 1994, we shared it with Nose Railway Company for the first time. And in 1996 we shared the card with Hanshin Railway, Kita Osaka Express Railway, and Osaka Municipal Transport Bureau. It is “Kansai Thru Pass”. Around this time, the card was becoming popular. As you know, a trip is not completed by only one transportation system, especially in the case of private railways like us. It is very rare to finish the trip only by Hankyu Railway. So we shared the stored fare with Osaka Municipal Subway, the core of Keihan urban areas. This is the time when the system became popular.

It is true that IC card has not been popular as we expected. But there are two reasons. One is that the network is still not enough. At the moment, only Keihan and we shared the system. However, this will be solved in the new future. It is the matter of time.

Another reason is because we applied the post-paid system. In short, it is like having another credit card, so the customers have to wait for the card to be issued for about two weeks. They have to get rid of the credit card they are using now. This is a pain in the neck and This is the problem. However, once they have it, it is going to be their first card to use. They do not have to pay an annual membership fee, so it is money saving.

The old card system could not tell to whom the card was issued and what routes the card holder took. But with the IC card it is possible to know them. Of course we have the issue of personal information protection, so we must be very careful. But as a marketing tool it has a potential to be a great weapon. It can be used for micro-payment in distribution. Since it has these advantages, even though it takes a long time to diffuse, I have no doubt that the post-paid system is the way to go.

JR also is doing various things, but in a point of business range the private railway companies have more experiences. Also we have more histories than JR. Therefore, I understand the reason why JR chose the pre-paid system particularly specialized in the

train in order to increase the number of the cards sold. Since we have done various businesses, the post-paid system should be the system we should have, even though it takes time to diffuse.

And for the further future, it is important to think how it should be involved with the cell phones. Also it could be combined with ATM cards. If people could automatically charge the fare from their bank account by using a chip in a cell phone, the advantage of the post-paid system would decrease. So we have to pay attention to the movement of the cell phone industry carefully.

However, I think, there are not many cases in which this kind of electronic money was as successful as they expected. That is why the payment system like the credit card has more potential than the electronic money that you have to charge money ahead of time.

Of course, it would cost a lot if we changed the all systems such as ticket gates, ticketing machines, and fare adjustment machines to the IC usable systems. We are going to change them as the users of IC cards increase. Unlike the magnetic system, JR and we are discussing that we could share “Kansai Thru Pass” and JR’s system with each other. I think from next year, it will be possible. If it happens, it will be really convenient. In addition, the post-paid system has an advantage of dealing with various complicated fare systems of the different companies.

■5

The payment is made after it is used, like a credit card payment. After it is used, a bill will be sent to the card holder, and the card holder pays it.

### **The Development of Real Estate Business and Retail Business**

**Editor:** It is said that real estate business for private railway companies is an important backbone. You told us that you would provide quality apartments. On one hand, after the burst of the economic bubble, the land price went down and has never gone back up. So it is said that it is not the time to go after the paper profit.

**Sumi:** Long-Possessing House Development. We basically limited it to two areas, “Saito”

and “Hankyu Takarazuka Yamatedai” on the mountain side of Yamamoto Station (Takarazuka line). In terms of the large land of subdivision for sale, we have finished dealing with its accounting including bulk sale. Of course, it is a measure of applying the Lower of Cost or Market method in the near future. I think due to the action we took last fiscal year we reduced the risk a lot. From now on, in addition to this, we are going to put more emphasis on business centered on urban apartments mainly along the railways.

**Editor:** You told us that the core businesses of Hankyu Holdings include distribution and retail business. Among them, you have a big book store, “Book First” in Tokyo. On the other hand, as you told us at the beginning, even though your shareholding ratio is small, you have “Hankyu Department Stores” whose roots are deeply related to Hankyu Railway Group. What do you think you are going to do with them in the future?

**Sumi:** As you pointed out, our capital relation with Hankyu Department Stores is very shallow. However, Department Stores and Toho are also considered to be members of Hankyu Group. And for the brand image of Hankyu and Toho Groups as a whole, Hankyu Department Store is very important. Hankyu Department Store (Umeda original store) is the number one department in the area, and we will support them as much as we can so that it can keep the position in the future. In the re-development in Nishinomiya, the core store is Hankyu Department Store and in the re-development in Umeda it is the same. Therefore, I have no intention to start up a Retailing business in a category that we compete with Hankyu Department Stores.

Therefore, for example, we also have cosmetic products, but we do not have the face to face system with counseling and very detailed service that you can see at the first floor of Hankyu Department Stores. Our store is more like Sony Plaza. Our customers choose whatever they like. However, it is not like a dollar shop.

We started later in this retailing business, so we want to get into the industry where no Gulliver dominates. For example, it is rather difficult for the late starters to get into the industry with Asahi beer and Kirin beer. Therefore, we want to get into a world without a Gulliver. In terms of bookselling, “Book First”, sales in books and magazines when we decided to get into the industry was 2.5 trillion yen. The total sales of Kinokuni-ya, the number one book seller and Maruzen, the number two bookseller together was 250 billion yen. In other words, their share was only around 10%. Then we thought we could

do it. We had sold books and magazines at kiosks, so we actually had the total sales of a few billion yen. Therefore, with the trust from the Hankyu name and the financial strength, we could do it surely with relatively small risk, we thought.

Other than that, we have convenience stores, bakeries and various businesses. However, these are basically business development along the railways. Besides, these are just a convenience-based approach for the passengers using Hankyu Railway. So the only business that went to Tokyo is a book shop. Even though the market in Tokyo is big, we only take the business in limited categories. After all, the emphasis on the area along the railways is our principle.

### **The Reorganization of Hotel Business**

**Editor:** In a sense of having been away from the railway areas, hotel business has such an aspect. You had a big movement of the business reorganization recently.

**Sumi:** The distribution retailing has become severely competitive, and so has the hotel business. We have competitors from overseas. Because it is hard to manage well if each hotel manages itself, we told each other that we should get together anyway. In Tokyo we have “Dai-ichi Hotel Tokyo”. In Osaka, we have “Hotel Hankyu International” and “Hotel New Hankyu Osaka”. We have enough hotels with a banquet room■6 in Tokyo and Osaka. It is not productive if the hotels in the same group compete to get customers for party use and wedding use. So we are thinking to create hotels specialized in just staying for business use.

We happened to rebuild the building where the main office of Toho, a member of Hankyu Group, was located. Geijutsuza (theater) will be still there, but the main office will be relocated in Hibiya Chanter. So we are planning to open a hotel there with a new brand name, “REMM”, specialized in staying for business. REM is from R.E.M sleep. Probably young people cannot be bothered to make a bath, so shower is enough for them. Even we are like them when we come back to the hotel after drinking a bit. We actually got rid of the bath but instead we prepared high-performance shower rooms. It is simply to create a comfortable hotel for business use and staying only.

In addition to Hibiya, another place is Akihabara that is drawing attention because of the recent opening on “Tsukuba Express”. We participated in their competition, and won, so we will create a “REMM” brand hotel with the same concept.

Probably it has 270-280 rooms. It is a hotel with very low cost operation. It does not have a restaurant, and of course it does not have a banquet room. We are going to make the member’s card to be an IC card so that checking in and out can be done instantly. It is designed that you cannot even get on an elevator without the card. It is for a security reason. So I think ladies can stay at the hotel without worrying about the security. The one in Hibiya is close to Tokyo Takarazuka Theater, so this is also important.

■6

It is a room to have a party or wedding. A big banquet hall.

**“Sincerity” “Humility” “Sense of Balance” “Flowing Water Never Competes to Go First” – Principle as a Manager**

**Editor:** I would like to ask about you, President Sumi. Currently you are the president. Can you tell us, from what you have learned through your career, what you think is important in a person who shows good leadership? To lead others, what attitudes do one need?

**Sumi:** I was appointed to the president two years ago and mass media asked me what my “favorite words” were. These are what I said then, “sincerity”, “humility”, “sense of balance” and “Flowing water never compete to go first.” I like a board game, *go*, and the last words, “Flowing water never competes to go first”, is from *go*.

The reason why I like these words is not because I can do them. It is because I believe that I should be what those words say, and I try to follow the words. If I say those words, it is hard to act differently from what those words say. “Sense of balance” is as it says, so I will explain the other three a bit. Firstly, about “sincerity”: it means you have to have responsibility. When I start having my own subordinates, I want to take responsibility for them. Maybe you may say it is common sense to take responsibility for your subordinates. But also it is important to have responsibility for your boss. I often heard



that because the judgment of their boss was wrong they got into trouble. However, there is an important question before the complaint. “Did you provide your boss the precise information?” or “Did you suggest your boss something he should do?” You must ask yourself if you are doing your job appropriately at the appropriate time with passion.

For example, the labor-management negotiation may be the typical case. Sometimes the other side says completely different things from what this side says, and the negotiation is broken off. The worst thing is that both never could work together. I think there is a feeling that the other never understands this side. If you go and sell something and complain, “I cannot believe that they did not buy such a good product like this”, it still would not do anything good. In that sense, it is important to take responsibility for the subordinates, bosses and peers. I think this is what sincerity means. When I was young I had a very hard time in the working field, and the lesson I had from that experience was “sincerity”.

The second one, “humility” becomes important when you are in the position to manage, to evaluate others or to deal with human resources. In a railway company if you are hired as a management trainee, you will be in a such high position relatively quickly. You are given a responsibility to choose who should be a driver or an assistant stationmaster, when you have just joined the company and are still inexperienced. Most of the employees joined the company because they like trains, so they all want to be drivers. And you have to choose who is going to be a driver. There is no exaggeration to say that their life is in your hands. That is what it is like to be in charge of human resources.

Since we are not perfect, it is impossible for us to manage human resources perfectly. But even so, we want to manage it fairly and persuasively so that everyone agrees with the management. Therefore, in such situations, I think humility is very important, You have the authority in human resources. If you think “If I look down on you guys from above, it is easy to do”, you are doing something very wrong. You’ve got to hear many opinions from various people, and it is important to have the sense that you do things as correctly as possible with humility. “Humility” is also a word that I learned from the working field.

I think management of human resources by the results-based payment<sup>7</sup> is not something easily operated by some kind of evaluation system. Basically it is very hard to tell if the established goals are fair or not or are right or not. I do not think you can

manage human resources only by results. I really think that “the ability to judge the character of others” and “the ability to evaluate” are absolutely important, rather than just judging people by their results.

**Editor:** Did you think that you would ever be a president?

**Sumi:** That is related to one of the words, “Flowing water never competes to go first.” The flow of the river is never controlled by some water thinking, I am going before that other water. I always do my best in the current position. I have been doing that. When I was in charge of the railway, I really devoted myself to the railway business. Even when the position is changed, the attitude is the same. It does not matter you are in accounting, human resources or general affairs. Whatever the position you are given, you do the best I can. I was doing that all through my career and the next thing I noticed I was the president. That is me, so when I was told to become the president I did not think “Oh, no”. Whatever the job they gave me I committed myself. That’s the way I did.

However, I did two years of Director and one year of Managing Director and then I was appointed to the president. So it is true that I got surprised thinking “what? Now?” I did not think the former President, Mr. Ohashi, would retire that quickly.

**Editor:** Perhaps, your ability of decision making is questioned. But on the other hand, the abilities to plan and to anticipate things long term are questioned as well. Isn’t it very hard to do these things because you have to manage a group with different kinds of businesses, such as Hankyu Group?

**Sumi:** Sure is. Since I was in the railway business for 20 years, I have confidence to make decisions in this field. As you know, the railway business is in a severe situation due to the demand decline, so we made an effort to reduce the cost by taking time. During that process, probably it is an influence of the trend of outsourcing, but we had a proposal to outsource conductors. However, in the railway company, there was a human resource system in which it starts from conductor, the driver and the assistant stationmaster. And because of this system, we have the structure that those who are specialized in railway transport are trained. Therefore, just for the labor cost reduction we cannot outsource the conductors. We would have to think what we should do with the drivers and the assistant stationmasters if we outsourced the conductors. We have

to think of measures that are not just temporary solutions.

So we came up with an idea to outsource station employees to subsidiaries. We asked the applicants to be station employees. And we chose those with excellent potentials and promoted them to the conductors and chose others with excellent potentials and promoted them to the drivers. And when that was the case, they could transfer to the parent company. By transferring from a subsidiary to the parent company, the treatment gets better and they can do what they want to do. Of course, I exchange opinions with others, but I am confident with my decision in the railway business.

However, I need someone that I can trust in the fields that are different from the railway business. If we have pending problems, I think it is important for me to know who can be more trusted in those pending problems. It does not mean that person's opinion is 100% correct, but at least I have to work on the ability to know who is trustworthy.

**Editor:** What would you advise to those who are skillful and are in a high position?

**Sumi:** That would be, as previously mentioned, the principle that I have tried to do, "sincerity", "humility", "sense of balance" and "Flowing water never competes to go first". These are my goals, and I have been practicing them believing that they are right.

**Editor:** Among your favorite words, "Flowing water never competes to go first" is an old proverb, and if your hobby is to play *go*, this seems to have a similarity in leading as a director. What do you think?

**Sumi:** I do not really know. However, my favorite way of *go* is so called "thick *go*". The player with "thick *go*" plays very carefully, so it looks like it is not doing well in the first half compared to the other type like "thin *go*". The latter appears to be doing well because it takes over much space at the beginning. However, if the latter is not careful, around the middle to the end of the game, I think he will show some mistakes and lose in many cases. I think it would be rather better to play carefully in the beginning and fight persistently or attack to the weakness of the opponent. That kind of way to play *go* is better as a strategy, I think.

If I must connect it with management, it would be called risk management. I think we

can make use out of it. This is really conceptual so I do not know how much I can do it.

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This is a system to measure something measurable beyond the business areas and duties, such as results themselves, the achieving ratio against their goals, the degree of bringing out action to achieve the result (competency) and so on and to reward the employees. As you know, there are many theories about the implementation and the effectiveness (including the negative effect), so it is in a state of confusion now.

### To the Young People

**Editor:** Among our readers we have students who have not yet graduated and worked. There are also some who are freshmen in their jobs. Can you please give them a few words?

Sumi: The students are at the last stage to be the members of the society. The most important thing is to find what you want to do at that stage, I think. In this case, what they want to do can be anything. There are many things that they cannot do once they become the members of the society. After being students, their lives will change a lot, depending on whether or not they can find what they want to do during four years or six years. If they can find what they want to do, they can make good friends naturally.

When I was a student, it was in the middle of the student riots. Waseda University was also shut down. I did not go to university but instead I drank with my friends or played *go*. Fortunately, I had many friends from junior high school and high school who came to Tokyo to study, so I was very lucky in that point of view. We had been friends for a long time since we became aware of ourselves at adolescence, so there was no point to pretend to be cool in front of them. I could not even hide shameful experiences from them. I still have some of those friends now and not only us but our families also get together now. I found these friends when I was a student. So in my case, it is hard to say that I found what I wanted to do, but I was rather lucky. However, if they have something they really want to do, the communication with their peers will be naturally created there, and they can make good friends. I think if they have something they really want to do, they can have friends who can talk to each other from the bottom of

their hearts.

Once you join a company, through my experience, I think it is important to work close to the customers. There are employees at the very field where the customers are. So it is important to know the employees' dissatisfaction, difficult relationships among employees or customers or both, and troubles they have with the customers. So I do not want them to hope to work in the planning section and advertising section that looks neat. I want to tell them, "Before anything, have a desire to work in the fields".

Editor: Thank you so much for talking about the things related to the way people should work as a business person, centered on the business development and strategic assignments for the future of Hankyu Group.

### **[From Editors]**

For urban people, railways are necessary for supporting the social life. In Europe and the United States, the service is just managed by a large amount of public investment. In our country, it is managed by private companies, and on top of that its service quality is so high that there is nothing to compare it with in Europe and the United States. The fact not only amuses them but also make them look on us with envy.

In addition to the railway business, those companies also have high standards for meeting the various needs of "to live", "to play" and "to rest" for residents of the areas along the railways. This fact is beyond those in charge of the railway in Europe and the United States. It is lucky for the residents along the railways to have such companies who take good care of those areas. However, since these railway companies usually accomplish these things beautifully, there is a tendency to underestimate the management efforts. The accident happened on the 25<sup>th</sup> of April on the JR Fukuchiyama line reminds us that in a very sorrow manner.

Hankyu Railway has pursued the increase of value and the development of the areas along the railways. President Sumi said that Hankyu Railway had this as the number one priority even for the future. These words reassured us and made us think how important the "origin" was.

With the progress of motorization, the aging population with the low birthrate and so on, the environment around the railway management is getting harder and harder. It is true that cars are very convenient. However, it is only true when the situation is ideal for the cars. The urban cities are where people get excited, and because they get excited they go to the urban cities. In such space, cars cannot function well. I would like to expect more from and to hang our hope on the railway companies that support our high quality urban life.

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