

Views of the Top Japanese Distributor

Interview with Nakauchi Isao, head of the Daiei Group, by Suetsune Takashi, managing editor of the *Journal of Japanese Trade & Industry*.

In Japan Nakauchi Isao is a household name known better than the names of most Cabinet ministers. He labels himself a merchant. Those who know what he has been doing and saying, prefer to brand him as a maverick entrepreneur. Nakauchi heads the Daiei Group, the largest business group of the distribution industry in Japan. He founded the company in 1952 in Osaka, Japan, by opening a small store of 85.8 square meters with 13 employees. He named the store K.K. Shufu-no-mise Daiei (the Housewives' Store-Daiei, Inc.), which carried medicine, cosmetics, and some confectionery items. Soon, he introduced the concept of chain-stores with the slogan of "For the Customers."

The number of stores and the amount of merchandise handled rapidly increased and the company became Japan's only chain-store to extend across the entire country. Nakauchi, born in 1922, a son of a pharmacist, graduated from the former Kobe Higher School of Commerce, and in the Second World War was sent to the battleground in the Philippines. With Japan defeated, he returned starving. For a short while he was engaged in his family business.

The Great Hanshin Earthquake destroyed offices and stores of Daiei in the area, with damages estimated to be as high as ¥50,000,000,000. The earthquake occurred at 5:46 a.m., January 17.

He was staying at his home in Tokyo. He learned the disaster at 5:55 a.m. from a television news bulletin.

Kobe was the birthplace of Daiei and there were 49 Daiei stores in the area. His reaction to the earthquake was far quicker than that of the government. He immediately went to his office in Tokyo.

Using the car telephone he directed the establishment of emergency rescue headquarters, even while the central government was trying to grasp the degree of the damage. He ordered all stores to stay open. A small wonder if he openly says that today in Japan the government has no leadership.

Nakauchi is also a philosopher. For the past few years he has been exchanging views with Prof. Peter F. Drucker on various problems of business, economy and humanity in the form of letters. The letters were published recently in Japan in two volumes of books. Nakauchi met with Suetsune Takashi of the *Journal*. Excerpts:

Question: What is your assessment of the Japanese economy today?

Answer: Japan's political, economic, and social structure has remained the same since prewar days. I call it the 1940 system. 1940 was the year when Japan instituted the so-called general mobilization law to



meet the necessities for the coming war. Under that law, people, goods and money were put under the control of the government. The economic policy of those days has produced many regulations which still today bind our economic activities. We have to scrap this 1940 system. We have to change the way of our thinking for the 21st century.

Q: You are advocating the need for creative ideas as a means of activating economy and society. Would you elaborate on that?

A: In the world of business we always need innovation. This means we have to destroy what has been routinely accepted in our society and try to find a new standard. Many problems such as *endaka*, trade frictions with the U.S. can be dealt with differently if we have a new philosophy and perspective. We are living in the so-called borderless economy. We Japanese should not look at the other economies of the world such as the U.S. and Asian countries only from our side. Instead, we should look at Japan from the outside, Japan as a member of the world economy.

A new way of thinking is necessary also for Japanese politics. Much heralded political reform has brought about very little change in the Japanese politics. Why don't you try to change more? For example, the prime minister of Japan should be given more power like that of the president of the U.S. A new political system of electing the prime minister by public election will be a good idea. The prime minister of Japan under the present political system cannot assume real leadership.

Q: Changing the way of thinking may not be easy. How do you think you can achieve it?

It is time for Japan to scrap the 1940 system.

A: Education can be instrumental. Under the present Japanese educational system where accumulation of knowledge is regarded as more important than anything else, truly creative and innovative minds cannot come forward. The Japanese have long been living under the guidance by the government and authorities, which encouraged the formation of uniformity of Japanese mentality and deprived the people of entrepreneurial mind. Japanese business people must regain an enterprising spirit. I am not saying that they do not have it. The problem is that since the Meiji era too many regulations have been instituted by the government and these regulations have entangled business activities. For example, if you run a so-called venture business, you can not get its stock listed while the company is in the red. In Japan, business activities have been conducted within the guideline set up by the government, which has invited criticism from Americans and Europeans.

Q: *But the government guidance has helped reconstruct the devastated Japanese economy?*

A: That is true. I do not deny the merit of the government guidance during the period of reconstruction of Japanese industry. The guidance was effective. For example, the priority production policy helped to build a strong manufacturing industry in Japan. It is true that government-oriented industrial policy has built today's strong Japanese economy. But we must not stick to it forever. For example, the unemployment in Japan stands around 3% against two-digit percentage in Europe. We cannot stand aloof with this figure. Full employment is only a dream in developed countries.

Q: *How are you coping with regulations in your own business activities?*

A: There is no end to my struggle against regulations. I come across walls of regulations everywhere. I want to keep my stores open 24-hours, but there is a regulation which prohibits such a business. I think supermarkets should be open 24-hours a day for customers. By keeping the stores open 24-hours a day, we can supply merchandise during the night thus avoiding transportation traffic jams. Regulations have also caused higher price of products in Japan compared with other developed countries, although there are some other elements such as price setting among the manufacturers and the lack of information about commodity price on

the part of consumers. More liberalization for competition is necessary to adjust the price differences between the Japanese market and the international market.

Q: *What is your assessment of what is called keiretsu? Isn't it just an efficient way of doing business born from Japanese mentality and social tradition?*

A: It is not appropriate to discuss keiretsu from the point of whether it is right or wrong. Keiretsu itself is not bad at all. It is a useful system in a sense. An automobile maker can consult its keiretsu networks to improve the quality of parts. But keiretsu should not be used as a means of, for example, discriminating against foreign products.

Q: *What about trade conflicts between Japan and the United States?*

A: The question is whether Japan is unfair or not in the eyes of the Americans. The trade surplus we have with the U.S. shows that Americans are buying more from Japan than the Japanese do from the U.S. Maybe Americans are spending more than they are saving. Some people say that Americans themselves are responsible for their deficit while Americans are saying the huge trade surplus is due to unfair Japanese business practice. I think it is useless to argue in this way. If Americans argue that you are unfair, you are unfair in their perception. What matters here is not whether you are fair or not. If Americans say that the Japanese language is a barrier in trade relations, you must say that they are wrong. More effort is necessary for mutual understanding.

Q: *What will be the role of Japan in Asia?*

A: Many Japanese manufacturers are moving their production lines into Asian countries and some people are warning that there will be a hollowing-out of industries in Japan. But I don't think there will be such a hollowing-out. The word hollowing-out itself is meaningless. Japan should manufacture more in Asian countries where labor is less costly. Japan should not try to manufacture everything in Japan. Asian countries can manufacture high quality goods and consumer goods which Japan can buy and by doing so Japan can help Asian economies to grow stronger. Also the Japanese yen should play a more important role in Asia. Liberalization of the yen and building a business circuit with the yen will be welcome. ■

In my view there are too many regulations in Japan.