Beyond the Crisis: Towards a Sustainable Business

By Professor Haruo FUNABASHI

Thank you Mr. Chairman, Ladies and Gentlemen,

It’s a great honour to have the opportunity to speak here at the OECD Global Forum on International Investment.

I am currently pursuing research on the issues of corporate ethics at the Sirius Institute, a think-tank in the field of business and economic ethics.

Today I would like to make a presentation about long-lived Japanese companies as a reference when we are thinking about responsible business, conduct and corporate governance. Last year I published a book “Timeless Ventures—32 Japanese companies that Imbibed 8 Principles of Longevity,” in cooperation with the Tata Group of India. Mr. Anant Nadkami is here today. He supported this project and gave me invaluable advice, and he will make a speech later on. Thank you very much for your coming, Anant. This book is a kind of essay related to long-lived companies in Japan.

In Japan, there are many long-lasting companies. According to a research more than 20,000 companies have been operating over 100 years, 1,200 companies have a history of more than 200 years, about 600 companies more than 300 years, and about 30 companies more than 500 years, and finally, 5 companies more than 1000 years. Chart 1 shows the longevity of the lasting companies which I studied in my book. As you can see, the oldest one has more than 1400 years.

This last one, whose name is Kongo Gumi, is a temple carpenter. In 578, three temple-carpenters were dispatched by Baejke, of the ancient Kingdom of Korea, to build Shitenno-ji temple, the oldest Japanese Buddhist temple constructed by the state. The ancestor of Kongo-Gumi was one of them. In the year of 593, the temple was complete. After the completion, the ancestor of Kongo-Gumi was hired to maintain the temple. For more than 1400 years, the Kongo family served as the principal carpenters for the temple. Now they are constructing not only temples and shrines but other buildings, such as residential ones, as well.

Why do so many long-lived companies exist in Japan? There are several reasons to explain this. From my viewpoint, I would like to summarise these reasons in three main themes:

(1) the Japanese view of running businesses and corporations
(2) the Japanese philosophy and religion, which have influenced the way of doing Japanese business
(3) Japan’s geographical conditions.

On the first point, Japanese people believe that the purpose of running a business is not simply to make money, but to contribute to the well-being of society. Japanese entrepreneurs and business owners do not see corporate organisations as personal property. Like runners in a relay, the company should be handed down generation to generation. For the workers, the workplace is a venue of self-development, somewhere to find a sense of deep satisfaction and fulfilment.

Secondly, Japanese people think that co-prosperity through preservation of traditions and values is the most important way of doing business; it is the most important way not only of doing business but in general, of living daily life. The symbol of this co-prosperity is the existence of our imperial family, the world’s longest-lived national sovereign dynasty.
We have, in addition, a unique religious system, that is to say, the co-existence of Shintoism, Buddhism and Confucianism. Partly because of this influence, Japanese people commonly believe that people are central to growth and that money and goods alone cannot replace the importance of people.

The third factor is very simple. The Japanese archipelago is located in isolation, detached from mainland Asia, minimising the risk of invasions. The warm and rainy climate helps Japan be self-sufficient through rice cultivation, capable of feeding a larger population. Even in these conditions, however, for each enterprise it is very hard to survive for a long period of time.

As I mentioned earlier, there are many long-lasting companies in comparison to other countries, but there are very few companies that enjoy outstanding longevity. Then, what are the secrets of longevity of these companies? Through my research, I’ve extracted 8 principles of longevity, as shown Chart 2.

1. Leadership driven by clear values
2. Long-term viewpoint
3. People put first
4. Customer orientation
5. Social-mindedness
6. Continuous change
7. Frugality and efficient use of natural resources
8. Efforts to embody No.1-No.7

Let me pick up a case study of the “Myochin family” to figure out the essentials, instead of explaining these principles one by one,. This is a typical case of continuous change.

Myochin Honpo is originally a blacksmith company which has survived more than 850 years. Back to its origin, the ancestor of Myochin had crafted an armoured suit for the warriors (Samurai). From that time to the end of the Edo period, about 140 years ago, the family continued doing the same business. At the end of the feudal period, the Myochin family lost their business field completely, because Samurais’ armoured suits became old-fashioned in the Imperialism Age. They decided then to change their job from that of an arm-suit manufacturer to that of a daily-products manufacturer. Using the forging skills that the family had cultivated, they made iron tongs (like chopsticks) to grab charcoal for heating. About 100 years later, however, in the 1960s, Japan experienced the revolutionary fuel shift from charcoal to kerosene oil, that resulted in a dramatic plunge in sales of iron tongs.

The Myochin family then again changed its business from that of a daily-products manufacturer to that of a handicrafts manufacturer. Now they are making musical instruments and ornaments by using their forging skills. This is a very abbreviated story of the Myochin family. They survived more than 850 years by honing and preserving their core competence of forging skills, even if their products changed from armoured suits, to daily products, to handicrafts like musical instruments.

Please listen to the sound of this wind chime made by Myochin. In the old days, we received a sense of coolness from such wind chimes. Last December, a summit to combat global warming began in Copenhagen. This wind chime is an ultimate tool against the global warming.

I would also like to ask: what do these characteristics of long-lived Japanese companies suggest? They suggest how to build a sustainable business and management model. Chart 3 shows the assumptions to a sustainable management.
I think that “sustainable management” should be based on human nature. That is to say, people not money, not goods, not an organ, not a machine, but vivid beings. In this sense, I summarize five characteristics of human nature:

(1) a person is not driven by rational reason
(2) a person is not an isolated being
(3) a person cannot foresee the future
(4) a person is not a standardised part
(5) a person is not a substitute for money or goods

These definitions are in opposition to the basis of so-called neo-classical economics, in other words, autistic economics. And the management based on it.
In my view, economics also should be built around human nature, and we should now search for post-autistic economics.

Chart 4 shows a very tentative sketch of future “community capitalism”, if I may say so. What the experience of long-lasting Japanese companies indicates is also the importance of human-centred thoughts.

They sometimes make non-rational decisions, they place importance on the community and people, they are very modest about the future and they recognize the differences among people.

Some of you may think that what I’m saying today is irrational and absurd. To these people, I’d like to present the allegory of water in the bathtub, by Ninomiya-Sontoku. He was a diligent farmer, entrepreneur and thinker in the Edo era, and is well known because he revitalized devastated villages, more than 600 of them.
In the western style, the shape of a bathtub is rectangle. In Japan, a bathtub is round or square.
Please imagine you are in a bathtub of a round shape. If you try to gather water with your hands, the water will flow out from your hands and arms. In contrast, if you push aside the water, water will come back to your direction.
He, Ninomiya Sontoku, said business is like this. Do not seek immediate profit, do not seek only one’s own profit. At first, seek the benefit of others, then the profit comes.
This way of doing is not rational, but is not absurd.

Thank you very much for your attention.