REINFORCING CULTURE AND TALENT OPERATIONS AT TRUSCO NAKAYAMA CORPORATION

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Abstract. *This paper illustrates how a traditional Japanese company, Trusco Nakayama Corporation (hereinafter NKC), strategically focuses on culture and talent operations in order to drive business sustainability and innovation. The authors worked directly with NKC executives, business leaders, organizational architects and talent operators to determine the main components and characteristics of their talent strategy and culture development efforts. The paper further describes how key elements of Japanese culture and traditional Japanese business practices were taken into consideration when developing the corporate strategy for value creation and business growth.*

Keywords: *Innovation, Organization, Transformation, Sustainability, Strategy, Japan*

1.Research Methodology

We conducted research based on a real business case study. The authors engaged a combination of participatory observation sessions, talent assessment and transformation workshops as in-house consultants, organizational performance evaluators and talent review officers for the business in Japan. We could, thus, have first-hand access to organizational data and we could observe decision-making processes and managerial initiatives with the eyes of internal associates. We also engaged in executive discussions with decision makers (Yin, 2003) on various platforms and opportunities. We conducted 638 surveys, 36 individual and 22 focus group interview (FGI) sessions with leaders, talent managers, service project owners, chief engineers, internal and external strategists, corporate executives and organizational architects.

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2. Background

Trusco Nakayama is a machine tool distribution and trading company which deals mainly with MRO (Maintenance, repair and operations products)[1] products for factories. The company was founded in 1959 in Tennoji ward, Osaka, as Nakayama Kiko Shokai, as a machine tool dealer. Sales in the fiscal year ending December 2017 were 195.1 billion, compared with 83 billion in fiscal 1994, when current president Tetsuya Nakayama took office. Ordinary profit margin for 2017 was 7.5 percent, significantly higher than the wholesale industry average of 3.9 percent (2014). The company had long been run debt-free. But with recent changes in the business environment, Trusco Nakayama began to invest aggressively, borrowing 10 billion in 2017 and 15 billion in 2018 (Trusco Nakayama, 2018).

Founder Chuji Nakayama was originally a *salaryman* for a machine tool dealer in Osaka. It was always in the back of his mind to start his own company, but he was not able to make the first step. Finally, the trigger for him to branch out on his own was when he began to worry about the future of his children. His son (current president), Tetsuya, was delivered by forceps and suffered an injury to his optic nerves. He was thus born blind in both eyes. Although his left eye recovered sight, he is still blind in the right eye. Nakayama decided to start the company for his son. He built the company base on five principles. These guiding principles are still used for the business today:

- Never draw up bills, always use endorsed bills
- Never discount bills
- Borrowing is limited to the extent that we can repay within one year. Don't agree on debt that is too difficult to pay back
- Don't make late payments to suppliers; don't extend
- We don't just make products for the machine tool industry

When the company was founded in 1959, it was the last in a long line of Osaka machine tool trading companies. For that reason, the company could not agree on a dealership contract with any famous manufacturers. So, the company tried to plan its own (outsourced) production of goods, other than tools, for use in factories. It took five years, but the company began selling products of its private brand in 1964.

From these early days, Trusco Nakayama was focused on creating value for all stakeholders. Value creation has been considered a major business objective all over the world. Value needs be created not only for shareholders but for all stakeholders (Haksever et al., 2004). According to Gummerus (2013) superior customer value leads to competitive advantage.

While several conceptualizations exist over the meaning of "value", no scientific consensus has yet been reached (Hassan, 2012) points out that value is multi-faceted and, when it comes to corporate value creation, it is not just a matter of price, quality, or location. Instead, value is derived from how customers perceive a combination of experiences. (Bititci et al., 2004). Authors describe an internal value, which comes from a shareholder perspective, and an external type of value, which comes from a customer perspective. Internal value implies that value is derived from profit and is expressed in

[1] MRO refers to auxiliary materials required by factories, warehouses, offices and construction sites, such as consumables, tools and fixtures purchased by a company as expenses. Main materials for factories include the raw materials, such as iron or chemicals used to create an end product. Major trading companies and manufacturers tended to operate in main materials.

corporate vision, mission and objectives. External value is related to what customers perceive and is directly connected to satisfaction. Throughout this paper, we will discuss value both in terms of internal and external value.

Nakayama Kiko Co. Ltd. was officially established as a stock company in 1964, and in 1989, its 30th year as a registered company, it was listed on the over-the-counter market of the Japan Securities Dealers Association. In 1994, the same year Tetsuya Nakayama became president, the company changed its name to Trusco Nakayama, announcing that the new organization will be focused on enhanced value creation for customers, employees, shareholders and society. Trusco is a portmanteau of *trust* and *company*. According to the company, the name conveys its commitment to building a company that earns the trust of everyone it is associated with (TRUSCO, 2020).

In 1996, the company listed on the First Section of the Tokyo Stock Exchange and the Osaka Stock Exchange. The following year, sales exceeded 100 billion. In December 2001, the company announced that it would cease trading in notes. At that time, the term of promissory notes handed out by the machine-tool retailers to their suppliers was around 150 days. This placed a heavy burden on the trading companies supplying them. Many retailers were unhappy, and it resulted in lost sales. However, Trusco Nakayama was an indispensable trading partner for many of these retailers, and in December 2005, the company succeeded in eliminating promissory notes from its business. As a result, retailers had to improve their credit ratings. Trusco Nakayama had cast the first stone in telling retail stores how they should operate.

The company made its first forays overseas mainly at the behest of Japanese automakers. It established foreign affiliates to supply Japanese car companies in Thailand from 2010, and Indonesia from 2015. To strengthen the company's selection of European-made tools, in 2015 it established a purchasing entity in Germany. The Representative Office Germany in Düsseldorf was established to serve as a site for product procurement. TRUSCO Corporation import quality PRO TOOL not commonly seen in Japan from all over the world, primarily the US and European countries, to invigorate the "monodzukuri" industry in Japan (TRUSCO Corporation Profile, 2018:12).

2.1. The MRO Distribution Market

Japanese domestic MRO was worth 7.9 trillion in 2015 (Japanese Ministry of Trade, Economy, and Industry calculations, 2015). There were more than 10,000 manufacturers of MRO products around the world, managing a total of more than 10 million SKUs (Add FN stock-keeping units). The most famous and leading player was the American giant, 3M. The end users were mainly companies (550,000 large and medium-sized, and 3.6 million small), but there was also demand from individuals.

Since the average user's annual purchase of MRO products was small (approximately 2 million) and users ranged from large companies to individuals, direct sales and delivery from the maker was not cost effective. Retail stores selling machine tools, therefore, played the role of connecting many manufacturers with a large number of users. Retail shops fell into three main categories: machine tool dealers (which also sell welding materials), home centers, and e-commerce operators.

2.2. Machine Tool Wholesale

Every year, hundreds of thousands of machine tools and work equipment are needed. To accurately meet the needs, wholesale distributors and retailers are bridging the gap between users and manufacturers, expediting the flow of products. According to the official Asia's Leading Platform for Analyses on Companies Industries and M&A Deal (SPEEDA) data base in 2017 from Japan, the top three domestic machine tool wholesalers by sales were Yamazen, Yuasa Trading, and Trusco Nakayama.

Table 1. Competitor Comparison

	Total sales	**Operating margin**	**Ordinary margin**	**Net income attributable to parent**	**Net margin attributable to parent**	**Equity ratio**	**Liabilities**
	JPY millions	**%**	**%**	**JPY millions**	**%**	**%**	**JPY millions**
Trusco Nakayama	195,096	7.3	7.5	10,173	5.2	77.14	10,000
Yuasa	461,749	2.5	2.6	8,261	1.8	30.56	3,484
Yamazen	497,963	3.1	3.0	10,205	2.0	34.17	5,521
MiSUMi Group	312,969	11.1	11.1	25,601	8.2	76.41	106
MonotaRO	88,348	13.4	13.4	8,464	9.6	53.94	8,176
Sugimoto	44,315	5.6	6.5	1,914	4.3	82.58	

***Source*:** SPEEDA, https://jp.ub-speeda.com, accessed on 25.01.2020

According to the information presented in Table 1 Yamazen company sales in fiscal 2017 were 498 billion, Yuasa Trading 462 billion, and Trusco Nakayama 195 billion. Yamazen and Yuasa Trading dealt mainly in machine tools, industrial equipment, construction machinery, and building materials. They were particularly strong in large equipment. Trusco Nakayama, by contrast, did not trade in large equipment and preferred to focus on MRO products.

2.3. Machine Tool Dealers

Machine tool dealers represented more than 60 percent of total MRO sales. Most of these dealers were small-scale. The management motto of Trusco Nakayama is to become the leading player in the wholesale sector in Japan. By offering a product range that other companies do not handle, by tracking trends to improve inventory, and by delivering products as soon as they are needed, the company aims to improve customer convenience. Trusco Nakayama handles 2.3 million products, keeps its inventory stocked with 390,000 items, and provides an inventory hit rate of 90.5 percent (IBM, 2020)

Annual sales per dealer averaged 150 million. Fewer than 30 percent of 13,000 domestic machine tool dealers had revenue above 1 billion. These dealers listened to local customer needs to provide services carefully tailored to them. In turn, dealers needed just-in-time deliveries, a broader range of products, and low prices. The number of dealers had been declining by an average of 1.7 percent over the last 30 years (Japanese Ministry of Trade, Economy, and Industry calculations, 2015). According to the database the number of member companies affiliated to *Zenkikoren*, the national machine tool federation in 2015 halved from 3,200 companies in 1989. The percentage of owner-operators over the age of 60 was exceptionally high. More than 60 percent of them planned to close their dealership when they retired.

Throught Japan, Trusco Nakayama Corporation has built delivery routes that trace planet, like orbits around company distribution centers. From this point of view, the company have named its distribution centers "Planets."

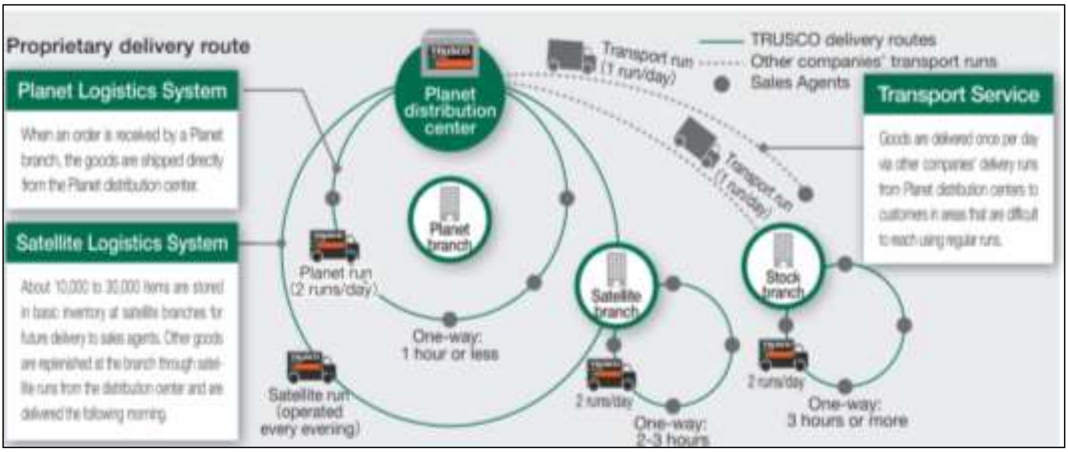

Fig. 1. Routes that achieve immediate delivery (Planet and Satellite Distribution System)
***Source*:** Trusco Nakayama (2020), "TRUSCO Corporate Profile",
http://www.trusco.co.jp/docs/eng/trusco2020.pdf,

2.4. Home Centers

Consumer retailers such as home centers accounted for about a quarter of the MRO market. E-commerce operators were slowly eating into sales of this channel. Home center sales were expected to shrink 0.3 percent per year in the years starting 2015. Home center wholesalers required low prices above just-in-time deliveries or a wide product range.

2.5. E-commerce Operators

E-commerce was the fastest growing channel. In 2015, it accounted for just nine percent of the MRO market, but by 2025, it was expected to be 25 to 30 percent. B2B MRO e-commerce operators tended to focus on smaller businesses not covered by machine tool dealers. Although B2C e-commerce operators such as Amazon and Rakuten handled MRO products, the sales volume was low compared to B2B.

2.6. Others

There were cases where retail stores handling other types of products began selling MRO products. Examples included stores dealing in industrial gas, stationery, and office equipment, and scientific machinery and equipment. Trusco Nakayama opened more than 800 new accounts per year, but many of them were these other types of operators.

3. Trusco Nakayama's Business Strategy

3.1. Product Range

Trusco Nakayama handled products in nine categories. Products ranged from cutting tools (3.7%); production processing tools, such as measurement tools and equipment (8.3%); construction supplies, such as hydraulic tools, welding supplies, ladders and stepladders (11%); work supplies, such as miscellaneous items for factories, grinding and polishing supplies, and cutting goods (18.4%); hand tools, such as screwdrivers and spanners (17%); environmental safety supplies, such as protective equipment (15.3%); storage supplies, such as containers and steel shelving (12.3%);

laboratory supplies, such as workbenches and laboratory essentials (4.4%); to office supplies, such as office equipment, cleaning supplies and stationery (8.8%).

3.2. Customers

Trusco Nakayama reached its customers mainly through three routes. The "factory route" accounted for nearly 80 percent of sales. Primary customers were retailers such as machine tool and welding material dealers. The number of accounts was over 27,000. These dealers sold onward mainly to end customers such as factories.

Traditionally, the "home center route" was the second biggest category, but the "e-business route" recently overtook it. Roughly 75 percent of e-business sales were through online mail-order companies (MonotaRO, Amazon.com, etc.). The remaining 25 percent sold through Orange Commerce, Trusco Nakayama's online end-user sales support platform for over 1,000 partner factories and 300 companies. Although Trusco Nakayama received orders from the end users via the platform, sales went through dealers. The company delivered orders to its affiliated dealers, who in turn processed the orders and sent them to the end user with delivery slips.

3.3. Corporate Governance

In 2017, Trusco Nakayama received the Best IR Award for Encouragement from the Japan Investor Relations Association Nakayama explained his company's approach to investor relations: "The starting point of IR is the shareholders' meeting. I wonder if it might be interesting to tell you the percentage of shareholders who show up to the meeting. For our company, of the 25,000 shareholders we have, 1,790 (7%) show up. This is a unique number. The level of attendance at the meeting shows the shareholders' level of interest in the company.

Our shareholders' meeting is very welcoming. At other companies, they may show a welcoming face, but in their hearts, they are saying, *Please don't come!* That's why we do it on the same day as our fiscal year end. I think the decision to hold the meeting on a busy day comes down to a choice between good and bad, between relevant and non-relevant (Trusco Nakayama, 2017). Many listed companies in Japan close their fiscal year at the end of March. Of these, many hold their shareholders' meeting on the second to last day of business in June (in 2018, 30.8% of companies held their shareholders' meeting on the same day as they closed their fiscal year.)

Mr. Nakayama also had clear ideas about corporate governance. According to his perspective the company does not need outside directors and full-time auditors. The first people to notice if the executives act untoward is the employees. Will they see an outside director who only visits the company once a month? The company have them because it is mandatory to have them. But from general perspective as the company must have them (auditors and outside directors), they are making the best of them to improve the company architecture. The Tokyo Stock Exchange made it a requirement in February 2014 for listed companies to designate at least one independent outside director. The following due, corporate law was revised so that listed companies not appointing an outside director were obliged to explain the reason at the shareholders' meeting. The corporate governance code enacted in June 2015 by the Financial Services Agency requires at least two outside directors and recommends a third (Japan's Corporate Governance Code. Final Proposal, 2015). An amendment in June 2018 called for the number of outside directors to be one third of the board or more.

The background to Nakayama's thinking was in the thoroughness of OJS. Not even Nakayama could see who gave feedback on the people in OJS. Nakayama told the talent operators that they should never entertain requests for that kind of information, even from him. If the section received such requests, it should inform him. It is this this kind of thinking and commitment to the development of authentic and user relevant value that is behind Nakayama's remark about not needing outside directors or auditors. There was already a mechanism in place that enabled employees to report unscrupulous executives.

Although many of the employees were shareholders, the overall ratio of employee stock ownership was not high. Nakayama explained why: "In many companies, employee or supplier shareholding associations are among the top shareholders, but we have stopped doing this. We think it is nonsense to tell people to buy or not sell their individual assets. Although we do in fact have an employee shareholding association at our company, the difference for us is that when the units of stock reach that required for voting rights, the shares are automatically withdrawn from the association and changed to individual stock. We tell them that because these are your assets, withdraw them so that you can be an individual shareholder and claim dividends as well as other shareholder benefits. They also have the right to participate in the shareholders' meeting."

Trusco Nakayama is widely considered in Japan as one of the most successful adopters of Japanese Management. Japanese Management grew out of research from the GHQ's post-war occupation policy (Abegglen, 1958), when it was noted as a management style different from the one in the United States. Related research progressed particularly in the 1980s, when Japanese automobile and electronics makers (major Japanese export industries) became successful in the United States and attracted international scientific attention. (Dertouzos et all, 1989).

In time, an increasing number of management researchers and business managers also felt that Japanese management was different from the US style. However, this research slowed after the end of the bubble economy in Japan and American management techniques became more common from the mid-1990s, a period of low growth in Japan. Many researchers pointed out the limitations of the Japanese management style, while the American-style management spread gradually, but not without its well-known side effects.

4. Conclusions

Somewhat contradictory and apparently incompatible, the Japanese style of management and American style of management have co-existed in different organizations and geographies over the past few decades. At times of economic growth, businesses have indicated preference for the immediate business results and profit-driven US style of management. However, at times of social unrest, economic hardship and business crises, global organizations have repeatedly turned to Japanese-style management for insights on stability, sustainability, and psychological safety.

As observed in the Trusco Nakayama case, the development of a family-type of culture, driven by social norms and supported by Confucianist thinking, Japanese organizations are highly hierarchical, yet well engineered and geared to accommodate talent at each layer of the organization and provide them with the tools and opportunities for growth within that specific organizational layer.

Promotion is planned and is calculated according to the amount of time spent with the organization, accumulated experience, demonstrated managerial and professional ability and organizational need for growth.

Although individual compensation does not increase exponentially according to individual results, employment is indirectly guaranteed for as long as the organization is in business, leading to psychological safety for employees who prioritize culture and belonging over individual increase of income.

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