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Our Founder's Principles

Episode I "Nomura" appears in Japan's financial history

Nomura is a fairly common Japanese family name, but Tokushichi Nomura II, the man responsible for the foundation of the business that later developed into The Nomura Securities Co., Ltd., was not made in a common mold. He was born into the money business: through determination, energy, and foresight, he transformed the money business. Insofar as the Nomura story is the story of one man, it is the story of Tokushichi Nomura II.



Tokushichi II

1. About Tokushichi Nomura I

The evidence we have about Tokushichi Nomura I is skeletal but instructive. He is said to have been born in the Osaka district in about 1850. In 1854, Commodore Perry would make his second, crucial visit to Japan, but when Tokushichi I was born, Japan was a closed country, and the rigid stratification of society into hereditary classes – samurai, farmer, artisan, and merchant – remained. At about the age of 10, Tokushichi I was apprenticed to a money changer, a certain Yahei Osakaya, a member of Japan's lowest-ranked and socially least respectable class.



Tokushichi I

2. Moneychanger

Respectability apart, the members of the merchant community could take pride in the knowledge that not only were they essential to the functioning of a society still based theoretically on the feudal obligations associated with land tenure and payments made in rice, but also that the landed aristocracy depended on them to handle their finances, especially their debts. Osaka at this time was the greatest center of large-scale domestic commerce and finance in Japan.

Since there was no single fixed currency, the moneychangers played a key role in all trading activities. Paper money did not exist. With gold, silver and copper coins in circulation in frequently varying amounts, the moneychangers determined their relative values according to the market.



Scale of Moneychanger

3. Ruin of Moneychanger Osakaya

Before very long, currency reform and the introduction of modern financial systems would make the moneychangers redundant, but meanwhile Tokushichi I learned his trade under his master. Their business relationship developed into a personal relationship, and, when he was about 21, Osakaya adopted Tokushichi into the family. Tokushichi's filial role did not last long: Yahei Osakaya died in 1871, the same year as the adoption.



Shop sign of Moneychanger

4. "Nomura" appears in Japan's financial history

Although the business firm was dissolved on Osakaya's death, Tokushichi set up on his own the following year, using the funds he had inherited from his adoptive father. The name of the new firm was Nomura Shoten. This marks the point when the name of Nomura was first inscribed on the pages of Japan's financial history. There was nothing new, however, about the type of business. Nomura Shoten ("shoten" means "shop") continued in the trade which Tokushichi I understood and knew best - moneychanging.



Shop sign of "Nomura Shoten"

Episode II Founder's Principles

5. Birth of Tokushichi Nomura

Shinnosuke Nomura (he assumed the name Tokushichi on his father's retirement) was born the first son of an Osaka moneychanger, Tokushichi Nomura (retrospectively referred to as Tokushichi I). The year of his birth, 1878, could hardly have been more auspicious: it also saw the foundation of the Osaka and Tokyo stock exchanges. In a real sense, Shinnosuke was the child of a new age, the age of social, economic, and political modernization which began with the restoration of the Meiji monarchy in 1868. His father had been born into a society which could still be described as feudal. Between father and son, there was more than a generation gap. In their origins and careers, they represented Japan past and Japan future.



from the left Shinnosuke (Tokushichi II), Jitsusaburo (brother), Kikuko (elder sister), Taki (mother), Tani (younger sister)

As the young Shinnosuke grew up, so did Japan's system of education, a centrally controlled system of primary, secondary and university institutions based on American and European models. In 1891, Shinnosuke entered the foundation course at the Osaka Commercial School. Although his studies were delayed by a serious bout of pneumonia, Shinnosuke persevered. He continued at night school, and at the age of 19 graduated with a qualification in commercial subjects.

His father must have been proud of him, for at the same time as receiving an education, Shinnosuke had been assisting his father in the family business.



Osaka Commercial School
source: School history of Osaka
City University

6. Succession of Nomura Shoten

In 1904, Shinnosuke took over management of Nomura Shoten.

The concept of investor protection was virtually non-existent. It was not surprising that the public image of the kabuya (stock dealer) was extremely low. Most of the big moneychangers had gone into the banking business, while their smaller colleagues were joined in the stock exchanges by a collection of pawnbrokers, pickle dealers, rice merchants and others, often operating on a part-time basis. The situation hardly inspired public confidence.

Regarding the research dimension of the securities business, Shinnosuke was deeply convinced of its importance. Reflecting on the matter in his autobiography, he wrote:

I believed that the time would come for people to consider government securities and corporate bonds and stocks as better investments than conventional bank savings of various types. What was keeping the public from doing so was the generally poor character of securities dealers, and the fact that their knowledge of the market was really quite limited. It was our responsibility to scientifically analyze the merits not only of the speculative stocks that were most talked about in the investment community, but of all stocks available in the market - to determine their true value and assess them as possible investment vehicles. I firmly believed that this was the best course to true financial growth.



Autobiography
"Tsutakatsura"

7. Investigative reporter hired to head research department

It was also in 1906 that Shinnosuke initiated a development in the company which was completely original and of great significance: he established an in-house research department. He was confident that he had the right people to conduct the research, for he had been very careful to select high-quality staff. In addition, Nomura began publication of a newsletter, the Osaka Nomura Business News, a daily that was widely distributed. The newsletter contained information on the previous day's trading, analyses of particular stocks, and articles on current economics trends. It was a service which no other broker of the time had ever considered, and, especially as it was undertaken by a house as yet not counted among the majors, it attracted a great deal of attention within financial circles. Shinnosuke had demonstrated not only his foresight, his capacity to innovate and his refusal to take advantage of the ignorance of unsophisticated investors, he had also shown a flair for publicity. Throughout the history of Nomura, these themes have remained constant, providing the basis for the company's progress and success.

Shinnosuke was also a master at the implementation of policy.

To head his research department, he hired an investigative professional, Kisaku Hashimoto, a university graduate and reporter on the Osaka Mainichi newspaper. Again, this was a move which made good business sense in more ways than one, for the comment it caused served to bring the name of Nomura to the fore in business circles.



Kisaku Hashimoto

8. Principle of putting customer first

When the newsletter was introduced, Shinnosuke made a statement of intent which must have sounded decidedly novel to the ears of investors: "Customer profits should be considered before the firm's profits." Perhaps just as unusual, he practiced what he preached. The concept of linking the company's gains directly to those of the customer was given wide exposure in the Osaka Nomura Business News, and the findings of the company's research department were published openly. This meant that Nomura and its customers could make decisions from the same standpoint and followed logically from Shinnosuke's belief that "the customer's success is the company's success."



"Osaka Nomura Business News"

Throughout our more than 80 years history, our Founder's Principles have been handed down and still live on today. From the principles of "putting the customer first" came our unwavering commitment to "Prospering together with our clients", something that we continue to build on today.

Episode III Strengthened firm's financial basis

9. Strengthened firm's financial basis

In 1904, Japan went to war, in an attempt to the ambitions of Russia in Manchuria, theoretically part of the Chinese Empire but the object of fierce rivalry over control of its huge economic resources. The decision to settle the issue by force of arms had an important symbolic significance, for Russia was a European great power. Japan's challenge reflected confidence in her military and industrial strength, acquired in less than thirty years. Racial pride was also at stake. Victory, on land and at sea, was as total as it was generally unexpected. Although not immediately treated as such, Japan had become a world power.

Success in war acted as a powerful stimulus to the stock market, tempered only briefly by Japan's failure to have a war indemnity clause included in the terms of the Treaty of Portsmouth, signed in 1905. The boom peaked in January 1907, when the shares of the Tokyo Stock Exchange reached ¥780, having stood at ¥165.95 in May 1905. Total trading volume for 1906 went over 10 million shares for the first time. By then, Nomura's sales had increased to such an extent that the decision in 1904 to build a bigger office proved well justified. The company moved to the new premises in 1906.

In 1907, Japan's stock market continued to flourish. Shinnosuke approached the market aggressively during this period and then, sensing that a major turnaround was at hand, reversed his position and began selling as the market approached its height. In the second half of January 1907, the market plunged dramatically. Whereas many brokers suffered very badly in the ensuing weeks, Shinnosuke emerged from the fall with significant gains and thus further strengthened his firm's financial basis.



Advertisement

10. Shinnosuke assumed the name Tokushichi II

The fierce trading of this period was the source of many a trader's tale in later years, and the attention focused on Nomura's success in avoiding the fall fixed the company firmly in the public eye. There was nothing fortuitous about Shinnosuke's victory: it was based on extensive, distilled market experience supported by the fruits of research. The whole episode reinforced Shinnosuke's convictions about the correct approach to the securities business and strongly affected his outlook in the years ahead.



Tokushichi II at the time

This period also marked a turning point in the company's affairs for yet another reason. Tokushichi I retired, handing over full control to Shinnosuke, who now assumed the name Tokushichi II.

11. Tokushichi II directs his attention overseas

In 1908, aged 29 and brimming with bright ambition, Tokushichi II decided to broaden his horizons. Like many young Japanese businessmen of his generation, he was eager to see the world. Undaunted by his inability to speak any foreign language, Tokushichi participated in a five-month overseas study tour sponsored by a major Japanese newspaper. He must have felt great confidence in the ability of his staff to manage without him to take such a long leave.

During the trip, Tokushichi visited the United States and made the grand tour of Europe. It was what he saw in the United States that had the most profound effect on him. Many years later, he confessed to a reporter that he had never been so surprised in his life as when he visited New York.



Cards sent from Paris, by Tokushichi II

12. Research department enhanced

Upon his return to Japan, Tokushichi immediately translated the lessons of his recent experiences into positive action. His first step was to restructure and expand the research department, dividing it into four sections: Research, Statistics, Editing, and Translation. The establishment of the translation section was motivated by Tokushichi's desire to become involved in the foreign currency-denominated public bond business. The funding demands created by the Sino-Japanese War of 1894-1895 and the Russo-Japanese War of 1904-1905 had led the Japanese government to float large public bond issues. The attraction of lower interest rates overseas and the need to increase foreign currency reserves motivated the government to float a large proportion of these bonds on foreign markets. For Nomura Shoten to become involved in the trading of such bonds, it was necessary to have personnel who could communicate in English. Tokushichi was laying the groundwork for future developments.

Tokushichi lost no time in informing the public of the progressive moves the firm was making. He announced the implementation of his plans in the Osaka Nomura Business News and also placed daily advertisements in Japan's leading national newspapers, the Mainichi and the Asahi. One associate later commented: "At the time, Nomura Shoten must have spent about ¥10,000 a month just on advertisements in the Mainichi and the Asahi. Seventy-five years ago, ¥10,000 a month was an investment only a truly committed individual would make." Tokushichi was constantly concerned to familiarize the public with the stock market, always stressing the long-term potential rather than the chances of quick gains by speculation. Of course, this tied in with the publicizing of Nomura Shoten's research department.



Series of advertisements

Ever alive to the possibility of stealing a march on the competition, Tokushichi inserted his advertisements in the Sunday editions, too. This had never been done before, and the ensuing comment again serves to promote the name of Nomura. Tokushichi's recognition of the power of advertising in the modern world, and his finesse in incorporating it into his basic operating policy, illustrate his natural penchant for pursuing the original, not for its own sake, but for sound and progressive commercial reasons. The exploitation of the media and the strengthening of the firm's research department later came together in the publication of Japan's first stock market yearbook. According to Washio Shibayama, former managing director of Nomura & Co., "Nomura was the first to publish pamphlets about securities, and Diamond and the other securities industry magazines simply copied them. In any case, Nomura was the first to use magazines and other publications to sell stock, and they gained excellent results from it."

13. Stepping stone to overseas business

Tokushichi next moved to put his bond trading plans into action. The substantial volume of bonds issued by the government, and the influx of foreign currency resulting from successful issues of sterling- and French franc-denominated public bonds, amounting to £11 million and F450 million respectively, in 1910, loosened credit, lowered interest rates, and firmed up the market in Japanese government securities. As a result, foreign brokerage firms began to trade actively in Japanese public bonds. As yet, Japanese securities firms were not involved in the bond business, which was dominated by the big banks. It was not a situation to Tokushichi's liking.

His preparations, especially his hiring of English-speaking staff, have been noted. One such person who joined Nomura Shoten at this time was Tetsuji Asano: "The Chairman called me in one day and said, 'In Tokyo, they're actively selling public bonds overseas, but here in Osaka there isn't anyone doing it yet. I want to get started, and that's why I've had you come and join us.'" In fact, overseas transactions at this time were carried out through the Yokohama offices of a British trading firm, Sale & Frazer Ltd. That Tokushichi was determined to enter the overseas market when he was not yet even deeply involved in the domestic market indicates the extent of his international vision and his understanding of how important the bond market would become. Meanwhile, in order to promote understanding of Japan in general and of the Osaka bond market in particular, an English-language company profile was issued in January 1910.



Japanese Government Bond advertisement on newspaper

Episode IV Incorporation of Nomura Securities Co., Ltd.

14. Incorporation of Nomura Bank

In December 1917, Tokushichi took another step in preparing the company for future growth. Nomura Tokushichi Shoten, a private company, became Nomura Shoten Incorporated, with Tokushichi as principal stockholder. At the same time, Tokushichi retired to an advisory position, handing over day-to-day management responsibilities to his younger brother Jitsusaburo. Not possessed of the broad, innovative business genius of Tokushichi, Jitsusaburo had nevertheless made a steady and important contribution to the development of Nomura Shoten. He was not destined to see the full fruits of the seeds he had helped to plant. In 1919, he contracted pneumonia and died.



Branch office of Nomura Shoten

15. Osaka Nomura Bank established

During his study tour of world financial centers in 1908, Tokushichi had noted the close relations which existed between securities firms and banks overseas. In his autobiography, he pinpointed one very practical reason why he himself had proceeded to cultivate good relations with Japan's banking community: "Because the timely settlement of accounts often makes it necessary to raise large amounts of money at very short notice, only in this manner can major deals be made." For ten years, being ambitious and conscious of the superior status of banks in Japan's financial life, Tokushichi had nurtured the dream of founding a bank himself. Now, he had the means to diversify and concentrate his energies on a new venture. In 1918, the Osaka Nomura Bank (the present day Resona Bank) was established with a capital of ¥10 million.



Osaka Nomura Bank

16. Securities Department set up

Immediately after the Osaka Nomura Bank was set up, a Securities Section was created to handle bond sales and underwriting. With the Japanese economy still expanding and bond issues increasing, business was good. Paradoxically, it was the end of the boom that provided the spur for certain administrative changes designed to foster the development of a much more active bond market. Early in 1920, a slump in the stock market led to general disillusionment with investment in stocks. The government attempted to capitalize on this situation by encouraging the buying of government bonds.



Nomura Bank office when the Securities Dept. was set up

17. Incorporation of Nomura Securities Co., Ltd.

Over the next few years, Osaka Nomura Bank's involvement in the bond market deepened and securities transactions began to account for a progressively greater portion of overall revenues. With other parts of the bank's business also growing, it gradually became clear that it would be impossible to give adequate attention to securities if they were treated as simply one aspect of the banking business. As early as 1922, it was recognized that there was a need to establish the Securities Department as a separate organization.

Upon his return to Japan, Kataoka consolidated his plans for the new venture. Throughout 1924 and 1925, construction of a new office in Osaka went ahead. On November 27, 1925, a meeting was held at Nomura & Co. to draw up articles of incorporation and decide terms of subscription for its stock. There was some discussion on the name to be adopted, with "Nomura Securities Department, Inc." and "Nomura Bond House" finally rejected in favor of "The Nomura Securities Co., Ltd." Article 2 (Business Objectives) listed the firm's activities as, (1) "the underwriting and distribution of public bonds, corporate bonds, and stocks," and (2) "the buying and selling of public and corporate bonds." It was decided the new company would be capitalized at ¥5 million with 100,000 shares. Four days later, ¥2.5 million was paid in and a founding meeting held. It was formally resolved that The Nomura Securities Co., Ltd. would be established at 2-61, Azuchi, Higashi-ku, Osaka.



First Articles of association
of The Nomura Securities Co., Ltd.



Opening advertisement

With Tokushichi now overseeing the general development of the Nomura enterprises, Otogo Kataoka was elected president of The Nomura Securities Co., Ltd. and all other founding members became directors. Ownership of the stock at this time was dominated by Nomura & Co., the parent company, with 98,000 shares. The remaining 2,000 shares were held by seven individuals involved in the new company's foundation. With all preparations completed, the new company was registered and The Nomura Securities Co., Ltd. was officially born. The date was December 25, 1925.



Branch office at the
incorporation

Our Founder's Principles

Nomura's raison d'être

"Nomura's mission is to enrich the nation through the securities business. This is something we must absolutely see through."

(Empirical Research on Investment Trusts, compiled by Nomura Securities Research Department)

Principle of putting the customer first

"We must place our customers' interests before our own."

(100th edition of Osaka Nomura Business News)

Global ambition

"Nomura is destined to become an active player on the international stage."

("Looking Back at My Life," by Tsunao Okumura)

Emphasis on rigorous research and analysis

"We have a duty to research scientifically the intrinsic nature of all securities."

("Tsutakatsura")

Staying one step ahead

"Always strive to stay one step ahead. Standing still is retrogressive."

("Nomura Tokuanden")

Entrepreneurial spirit

"If, as an entrepreneur, you can determine something to a 70% certitude, you must have the courage to take up the challenge even though some uncertainty remains."

(Capital Market Research)

Human resources

"Nomura underscores the fact that the development of human resources, acquisition of talented personnel and ability to match the right talent with the most appropriate position are more formidable assets than sheer capital strength."

("Tsutakatsura")

Emphasis on team work

"It is the management's task to see that Nomura employees take responsibility and pride in their work and to form a unified team under the control of branch office managers."

("Tsutakatsura")

Business development frame of mind

"We must have the courage to boldly follow the path of our convictions."

("Tsutakatsura")

Customer service mindset

"If you conduct your work in a mechanical manner, believing simply that your role is over once the deal is done, there is no use in drawing on the strengths of those around you."

("Tsutakatsura")

"Tsutakatsura": Tokushichi Nomura's autobiography, serialized in the Group's Newsletter.

"Nomura Tokuanden": Biography published 1951 following death of Tokushichi Nomura.