

The Social Background of Zaibatsu in Japan

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I.

The characteristics of the zaibatsus in Japan have been discussed in various ways, but I came recently to a better understanding of the zaibatsus on the following points [1]:

First, the center of the zaibatsu's business was the zaibatsu family as investor, and in many cases in one business plural families belonging to the same ancestry are found. These families invested heavily in their holding companies and controlled them exclusively. Also these holding companies controlled many subsidiaries (directly or indirectly affiliated).

Second, the subsidiaries were organized by the zaibatsu family and were in various industries. Most of them were oligopolistic enterprises ranking in the top class of each industry. Contrary to the holding companies being either unlimited or limited partnerships, all of the subsidiaries were corporations. Most of the zaibatsus completed forming such organization structures by about 1920 (1909-21).

II.

There are two types of zaibatsu families: the old merchant families (the Mitsui and the Sumitomo) which appeared in the 17th century and took business opportunities in the Meiji era after their temporary decline through the period of the Meiji Restoration; and the new merchant families (the Mitsubishi, the Yasuda, the Furukawa, the Asano, and the Okuro) which came after the Restoration [3]. Regardless of origins, however, there was a general tendency for the capital funds of the zaibatsus to become the common property of the family [7]. That is, a son who had inherited business interests from the originator could not dispose of them, although he was given the right to receive profits from the business. Accordingly, the zaibatsu's capital was the common

property of the family. Among the merchants in the Edo period, there were some who used supplemental funds offered by subordinates such as managers (bekke or banto) or branch families (bunke), but after the enactment of the Commercial Code in 1893 and the Civil Law in 1898, the zaibatsu family came to dislike using such money, wishing to be the sole investor in the business. Since the relationship between employer and employees before the enforcement of these laws was like that of lord and vassal, the managers and the branch families had only an imperfect ownership of their subscribed funds in the Edo period. As a result, their investment did not threaten the master's right to control the business. After the enforcement of the laws denying such a lord-vassal relationship, the zaibatsu family came to dislike the investments of the subordinates, and eventually the interests of the latter were brought up by the former. To describe the matter minutely, the employed manager, the banto, did not have the perfect right to invest money in the owner's (lord's) enterprise. For instance, in case of bankruptcy, the banto's money was treated like the owner's. In recovering his money, he could not bring the case to court. By the enforcement of the Civil Law and the Commercial Code, the banto had come to have the perfect right in a modern sense as an investor in the case of an investment, and as the creditor in the case of lending money. So the owner came to avoid utilizing his money. When the employed manager came to have the right as the investor in addition to the real power of management, it was feared that his position would become too strong, and the owner's position too weak.

Nevertheless, the family members of the zaibatus could not use the ownership of their property freely because of the family code prohibiting the disposal of property. The purpose of the family code, which was handed down from generation to generation, seems to have been twofold: One was protection from injury to the family business by incapable family members, and the other was the joint utilization of divided family funds. In fact, in the social circumstances of the time, in which the mobilization of outside funds without fear of the possibility of losing control of the business was difficult, the best way to concentrate capital was not to diffuse the property which might have been divided through inheritance [7].

III.

Since it was a tradition for big merchants in the Edo period to restrict themselves as investors and to trust the executive jobs of the business to hired managers (vassals), the employment of professional managers with a modern sense and with higher education was one of the indispensable preconditions for success in the Meiji period, especially shortly after the Restoration's unprecedented social upheaval. However, Japanese society of the time had ample

human resources for business, which came partly from the disintegration of the feudal regime leaving many able samurai men. In fact, these ex-samurai managers contributed a great deal to the development of Japanese business led by the zaibatsus, as shown in many cases of hired managers. Undoubtedly, they devoted themselves to business motivated by the idea that the development of the zaibatsus would result in the increase of the nation's wealth [6].

IV.

Until the end of World War I, the central offices of the zaibatsus could meet the demand for funds from their affiliated enterprises but after the war, as the size of business became larger, the need to use outside funds arose and a part of the increase capital of the directly affiliated enterprises began to come from the people's money. Nevertheless, the central offices of the zaibatsus were tightly closed to society in stockholding, and it was just before the outbreak of World War II that central offices changed their organization structures from partnerships to corporations. This change in the legal form was seen as the zaibatsu' response to the changing environment of the time. In addition to the need for additional funds for increased investment in affiliate enterprises for military purposes and for increased payment of inheritance taxes and income taxes following tax reform after 1935, they had to answer criticisms of society as well as of the military. The zaibatsus were criticized as not cooperating with the national policy and pursuing only their self-interests. The introduction of corporate forms to the central offices was to meet these dual pressures. In the case of the partnership or the limited partnership, the central offices could not get money by mortgaging stocks, and could not issue the debentures too. So to procure the money to meet the (military) demand of war industries, they had to revolutionize the forms of their central offices. Hence a part of stocks of the central office was offered to the public, though those who could buy them were restricted to either officers and employees of the zaibatsus or to affiliated companies. They feared interference from the outside members among stockholders. Therefore they tried to limit the stockholders only to the zaibatsu family and its employees. Despite such limitations, it was an important first step toward public offering of the stocks of the central offices [5]. For, from this time on, as the demand for funds created by the development of the heavy chemical industry for military purposes increased, the zaibatsus gradually softened their closed financial character and at the same time, the right of family members to dispose of their stocks seems to have been expanded.

V.

I should like to discuss the strategy of the zaibatsu enterprises from the point of view of business diversification. According to published studies on the zaibatsu's business, diversification in unrelated business fields was a feature of its enterprise. That is, if we divide diversification into two categories: vertical diversification such as iron mining-iron manufacturing-steel manufacturing; and horizontal diversification such as banking-merchandising-mining, the latter was considered a more conspicuous phenomenon in the zaibatsu's strategy, although among the new Konzern type of zaibatsus which emerged after 1920s we can find some cases of vertical diversification, especially in the electrochemical industry. I have translated Japanese terminology of diversification into English directly. I think these concepts of diversification are a little different from those generally used in the United States.

It is true that old established zaibatsus such as Mitsui, Mitsubishi, and Sumitomo seem to have diversified into unrelated fields of business, but if we check them carefully, in many cases they were either closely related to each other or to a field which they could enter with confidence through past experience. For example, the Mitsui family put their domestic trade and foreign trade together, in 1876 organizing the Mitsui Bussan (trading) Company. In 1888 this trading company acquired the government-owned Mi-ike Coal Mine to organize the Mitsui Mining Company. This diversification can be explained by the fact that the Mitsui Trading Company had been profitably trading the Mi-ike coal for years and felt it desirable for the company to acquire the coal mine. At the same time, the Mitsubishi wanted to get the Mi-ike Coal Mine. In this case it was supposed that the Mitsui Bussan (trading) Company would lose the profit from the export of Mi-ike coal. Similarly, the Mitsui Bank established in 1876 was the family's reorganized financial institution, called Goyosho, which had been handling government money since 1866. Again the Goyosho had been a separate division of Mitsui's exchange house with a long history. In such a historical context, banking, trading, and mining were closely related in Mitsui's business, even though they seemed to be unrelated at first glance.

Starting with a shipping business, Mitsubishi operated two coal mines which they held as a mortgage on a loan and used coal from these mines for their shipping fuel. In 1875 Mitsubishi established the Yokohama Iron Works mainly to repair their own ships and eventually acquired experience in shipbuilding, through a joint venture with the Boyd Company of England. In 1876, hoping for an advantageous position in shipping, which was then becoming more and more competitive, Mitsubishi opened an exchange office to draw on documentary bills from which developed the Mitsubishi Bank. In 1881, Mitsubishi acquired the Takashima Coal Mine from

Shojiro Goto, one of the most influential politicians of the time, and mortgaged his property (Takashima Coal Mine). Then in 1887, Mitsubishi purchased the government-owned Nagasaki Shipyard which they had been leasing for three years. However, the shipping business of Mitsubishi had to be merged with the competing Kyodo Unya Company. It was feared that both of these companies would become bankrupt in severe competition. So the government permitted both companies to merge to save Japanese shipping from ruin. As a result of this merger, the Nihon Yusen (Japan Navigation) Company was founded. Since then, Mitsubishi came to put more emphasis on mining and shipbuilding, and went on to start a real estate business.

As has been described, Mitsubishi diversified business into related fields so long as shipping was the main business of the company. In 1873, Mitsubishi bought the Yoshioka Copper Mine, but this was supposed to be an exception. Nevertheless, if we see the personal background of this purchase, it soon becomes clear that the copper-mining business was by no means an unrelated one. It was Koichiro Kawada, an able partner of Mitsubishi, who suggested the profitability of copper mining and eventually he was appointed as general manager of the mine. Kawada had already acquired knowledge of copper mining through personal contact with Saihei Hirose, the general manager of Sumitomo's Besshi Copper Mine. They were said to have met in 1868 when the newly established Emperor's government distrained Sumitomo's mine.

Sumitomo was left behind in the diversification. Since the family was in adverse circumstances at the time of the Meiji Restoration, except for copper mining, diversification of business was out the scope of Sumitomo. Expanding business in copper export, they tried to develop an export business but without success, and it was not until 1895 that they established their own bank, although they ran an exchange business in the Edo period. In Sumitomo, diversification took place in ventures in the Besshi Copper Mine, which included metal manufacturing, heavy chemical, and electric industries [5].

VI.

As illustrated in the few cases mentioned, the Japanese zaibatsus generally diversified their enterprises in either a main business or in one with which they had enough experience. They were rather cautious in going into new and unknown fields. The fact that Mitsui never started manufacturing such heavy chemical products as ammonium sulphate or rayon until the new zaibatsus demonstrated their successes in these new products is evidence of Mitsui's timid attitude. Similarly Mitsubishi was so pessimistic about the future of the automotive industry that they ceased car manufacture early, even though they were a forerunner in the industry [2].

As far as these new ventures are concerned, the new zaibatsus were far more progressive in their attitudes and in fact, such firms as Suzuki [1] and Nihon Chisso (nitrogen) pushed bravely into the heavy chemical industry. Supposedly, the reason the new zaibatsus were more active in newly developed industries than the established zaibatsus could be largely explained in terms of the loose structure of the family ties of the former group. The new zaibatsu was not as closed as the old one. In being closed, they would not have had sufficient large capital.

Nevertheless, the problem of the leadership of the old zaibatsus still remains. How could they become the most powerful factor in the development of the Japanese economy being exclusively supported by zaibatsu families whose desire was only to protect their common property? Had the zaibatsu enterprises been managed as conservatively as the owners wished, it would probably be inevitable that like many of the merchants in the Edo period the zaibatsus in the Meiji period would have become outmoded and have been ruined. Nevertheless, the zaibatsus could find many able, young, highly educated men with strong feelings of nationalism in the society. To hire such men and to delegate authority related to management of huge enterprises was the only way to get rid of their weaknesses. The way in which the zaibatsus chose leadership as well as making rapid progress in the course of economic development in prewar Japan can largely be explained in this context, although for the relationship between zaibatsu families and hired managers, further studies are needed.

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