

Takeo Kikkawa

History of Innovative Entrepreneurs in Japan

OPEN ACCESS

 Springer

History of Innovative Entrepreneurs in Japan

Takeo Kikkawa

History of Innovative Entrepreneurs in Japan

 Springer

Takeo Kikkawa
Graduate School of International Management
International University of Japan
Niigata, Japan

Translated by
M. S. Murphy
Long Island City, NY, USA

Kazuya Hirai
Tsuru-shi, Yamanashi, Japan



ISBN 978-981-19-9453-1 ISBN 978-981-19-9454-8 (eBook)
<https://doi.org/10.1007/978-981-19-9454-8>

Translation from the Japanese language edition: “Inobēshon no Rekishi - Nihon no Kakushinteki Kigyōka Gunzo” by Takeo Kikkawa, © Takeo Kikkawa 2019. Published by Yuhikaku Publishing. All Rights Reserved.

© Kreab K.K. 2023. This book is an open access publication.

Open Access This book is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this book or parts of it.

The images or other third party material in this book are included in the book’s Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the book’s Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

This work is subject to copyright. All commercial rights are reserved by the author(s), whether the whole or part of the material is concerned, specifically the rights of reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed. Regarding these commercial rights a non-exclusive license has been granted to the publisher.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors, and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, expressed or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Springer imprint is published by the registered company Springer Nature Singapore Pte Ltd. The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

Acknowledgments

The original Japanese edition was published by Yuhikaku Publishing Co., Ltd. in 2019. I am grateful to M.S. Murphy who translated the main Japanese text into English with her keen journalistic eyes, as well as to Kazuya Hirai for his thorough translation of the footnotes and other citation materials. I am deeply thankful to Professor Sam Lehman-Wilzig who copyedited and polished the translated manuscript, as well as Dr. Maki Umemura and Dr. Kenji Kushida who tirelessly advised on this English edition. I am grateful to all those who have contributed their skills and time to this project, making this English edition a reality.

Contents

Introduction: What Is Innovation?	1
The Aim of This Book: Three Questions	1
What Is Innovation: Three Views	2
The Book’s Structure: Three Time Periods	3
Part I The Era of Breakthrough Innovations	
Overview I: Edo Period	7
Case 1 Zen’emon Konoike: Successive Innovations Impacting the Nationwide Market	11
The Konoike Family Tree	11
Development of Clear Sake and Its Shipment to Edo	12
The Beginning of [Konoike’s] Water Transport Business	13
Expansion into Financing and Lending to Daimyo	13
“Financial Statement” and Double-Entry Bookkeeping	15
The Konoike Family After the Meiji Restoration	16
Case 2 Takatoshi Mitsui: New Business Opportunities and the Retail Revolution	19
Brief Biography of Takatoshi Mitsui	19
Groundbreaking Nature of “Tanasaki Uri” (Store-Front Sales)	20
The Ground-Breaking Nature of Takatoshi Mitsui’s Retail Innovation	22
Introduction of the Joint Ownership System	23
Case 3 Genzaemon Nakai: A Regional Merchant Thriving on the National Stage	25
The Rise of Omi Merchants	25
The Nakai Family Tree	27
Epoch-Making Nature of the Nakai Management Style	29
The Limits of the Nakai Family and Their Background	30

Discussion Point 1: Early Modern or Pre-Modern?	33
The “Novelties” of the Edo Period	33
Matao Miyamoto’s “Edo Period = Early Modern” Theory	33
Prerequisites for Japanese Economy’s Early Takeoff	34
Overview 2: From Port Opening to Post Russo-Japanese War Period	37
Japan’s Encounter with Global Capitalism	37
Accumulation of Capital and Labor	39
Industrial Revolution in Japan	39
Three Types of Businessmen	40
Case 4 Hikojiro Nakamigawa: Zaibatsu Reform by Salaried Managers	43
Characteristics of Japanese Zaibatsu	43
Brief Biography of Hikojiro Nakamigawa	46
Recovery of Non-performing Loans	47
Appointment of Salaried Managers	48
Industrialization Effort and Its End	50
Case 5 Yataro Iwasaki and Yanosuke Iwasaki: Formation of Zaibatsu by Owner Managers	53
Brief Biography of Yataro Iwasaki	53
Brief Biography of Yanosuke Iwasaki	55
Breaking Away from Political Powers	57
Appointment of Salaried Managers	58
Promotion of Industrialization	60
Case 6 Zenjiro Yasuda and Soichiro Asano: Zaibatsu Formation Through the Collaboration of Two Owner-Managers	63
General Zaibatsu and Financial/Industrial Zaibatsu	63
“Yasuda Zenjiro” by Tsunehiko Yui	64
Brief Biography of Zenjiro Yasuda	66
Brief Biography of Soichiro Asano	68
Cooperation Among Owner-Managers	70
Case 7 Eiichi Shibusawa: Mobilization of Managerial Resources by an Investor-Manager	73
A Tumultuous Life	73
As an Investor-Manager	74
Complementary Effects Among the Three Types of Managers	76
As a Social Entrepreneur	77
As a Business Leader	78
As a Private-Sector Diplomat	79
Gapponshugi and Its Significance Today	80

Discussion Point 2: How Did Japan’s Economy Manage to Take Off So Early? Conditions That Enabled the First Successful Industrialization Case Among Latecomer Nations	85
General Requirements for Latecomer Nations’ Industrialization	85
Unique Conditions That Made Japan the First Case of Successful Industrialization Among Latecomer Nations	87
Interplay Among the Three Types of Managers	87
Early Take-Off as the Outcome of Breakthrough Innovations	88
Part II The Era of Incremental Innovation	
Overview 3: World War I to the 1980s	93
World War I and Economic Turmoil	93
The Japanese Economy Gets on a Long-Term Growth Track	94
The Years Leading to World War II	95
From High Growth to Stable Growth	96
Incremental Technological Innovation and “Japanese Style Management”	97
Case 8 Ichizo Kobayashi: A Leader in Urbanization Creates a New Industry	99
Urbanization and Electrification Pave the Way for a Mass Consumer Society	99
Housing Shortages in Osaka	100
Minoh-Arima Electric Railway Enters the Real Estate Business	102
Ichizo Kobayashi’s Entrepreneurial Innovation	105
Kobayashi Also Contributes to Electrification	106
Case 9 Yasuzaemon Matsunaga: Electrification Leader Establishes Private Sector-Led Public Utility Operations	109
Encounter with the Electric Power Business	109
Practicing “Scientific Management”	110
Matsunaga’s Foresight in “Personal Opinion on Electric Power Regulation”	112
The Japanese Government Imposes Controls over the Electric Power Industry	114
Matsunaga Leads the Reorganization of the Electric Power Industry	115
Two Contributing Factors to Matsunaga’s Ascent	116
Establishment of the “Private Sector-Led Utility” Model	117
Case 10 Saburosukey Suzuki II: Commercialization of Exceptional Breakthrough Innovation	119
“Three Greatest Inventions in Japan”	119
Invention of Ajinomoto by Kikunae Ikeda	120
The Commercialization Effort by Saburosukey Suzuki II and Others	121
Saburosukey Suzuki II Before His Encounter with Ajinomoto	121

Conditions That Enabled Ajinomoto’s Commercialization	123
Struggles Leading Up to Ajinomoto’s Commercialization	124
What Made Ajinomoto’s Commercialization Possible?	125
Case 11 Kiichiro Toyoda: From Breakthrough to Incremental Innovations	127
“The Business History of the Toyoda Family’s Spinning and Weaving Business” (Toyoda-ke Boshoku Jigyo no Keiei-shi) by Hiroaki Yamazaki	127
Sakichi, Risaburo, and Kiichiro Toyoda	128
Development of the Model G Automatic Loom	130
Entry into Automobile Manufacturing	131
Toyota’s Labor Dispute and Kiichiro’s Retirement	132
The Toyota Production System	133
Case 12 Shitagau Noguchi and Yoshisuke Aikawa: Emergence of New Konzerns and Foray into the Continent	137
New Konzerns	137
Brief Biography of Shitagau Noguchi	139
Brief Biography of Yoshisuke Aikawa	142
“Yoshisuke Aikawa, Founder of Nissan” by Masaru Udagawa	146
Expansion into the Asian Continent	147
Case 13 Sazo Idemitsu: From “Oil Merchant of the Continent” to “Hero of Native Oil Companies”	149
The Miracle of the Nissho-Maru	149
Idemitsu’s Overseas Expansion	150
Expansion into Manchuria and Delivery of Axle Oil to the South Manchuria Railway	151
Pursuing an “Emphasis on Overseas Territories”	153
Deployment to the South and Japan’s Defeat in World War II	156
Transformation into “Hero of Native Oil Companies”	158
Case 14 Yataro Nishiyama: Leader of Capital Investment Drives High Economic Growth	161
A Decade of Revitalization	161
Yet Another Miracle	162
Key Points of Nishiyama’s Innovativeness	162
The Man who Changed the History of Japan’s Steel Industry	164
Decision-Making with a Rational Thinking	166
Into the Era of High Economic Growth	167
Case 15 Konosuke Matsushita: Initiator of the “Consumer Revolution” Drives High Economic Growth	169
The Progression of the “Consumer Revolution”	169
Creation of Dedicated Distribution Networks by Home Appliance Manufacturers	172

“Matsushita’s Way of Doing Business” as Practiced by the “God of Management”	173
Konosuke Matsushita Before WWII	174
Konosuke Matsushita After WWII	176
Case 16 Masaru Ibuka, Akio Morita, Soichiro Honda, and Takeo Fujisawa: The Groundbreaking Nature of Sony and Honda Becoming Global Companies	181
“Sony of the World”; “Honda of the World”	181
Profiles of the Four Businessmen	182
Commonality of Their 1946 Founding and Early Product and Sales Strategies	183
Overseas Business Trips in 1952 and Investment for Competitiveness	186
Full-Scale Entry into Overseas Markets from 1957–1958	190
Entry Into Large Established Markets in 1963–64	192
Objective Conditions That Enable Innovative Entrepreneurial Activities	194
Subjective Factors That Enable Innovative Entrepreneurial Activities	196
Case 17 Toshio Doko: The Sense of Crisis Harbored by the “Fine Physician of the Business World” and “Mr. Administrative Reform”	201
Building the Foundation for “Doko the Turbine Man”	201
Delivery of the First Domestically Produced Turbine	202
Revamping the Management of Ishikawajima Shibaura Turbine	203
Rebuilding the Management of Ishikawajima Heavy Industries	204
Rebuilding Toshiba’s Management	207
From Keidanren Chairman to “Mr. Administrative Reform”	209
A Sense of Crisis Harbored by Doko	210
Discussion Point 3: How Did Japan’s Economy Continuously Grow Over a Long Period? Catch-Up and Domestic Demand	213
Examining Akira Suehiro’s “Catch-Up Industrialization Theory”	213
Examining the World Bank’s “East Asian Miracle”	215
Long-Term Growth as a Result of Incremental Innovations	216
Part III The Era of Struggle: Japan Caught Between Two Types of Innovation	
Overview 4: Japan Since the 1990s	221
The Japanese Economy Takes a Darker Turn	221
Japanese-Style Management Turns Dysfunctional	222
Investment Restraint Mechanism	223
Case 18 Kazuo Inamori: Managerial Renewal by a Venture Manager	225
Inamori Begins Kyoto Ceramic (Kyocera) as a Venture Manager	225
Future-Oriented Market Cultivation and Technological Development	227
Hourly Profit System and “Amoeba Management”	229
An Entrepreneur Who Upholds His Philosophy on Management	229

Founding of Daini-Denden Inc. (DDI) 231

Restructuring Japan Airlines 233

Case 19 Toshifumi Suzuki: Convenience Store Innovations from Japan to the World 235

The Dynamism of Japan’s Retail Industry Development 235

Brief Biography of Toshifumi Suzuki 238

Suzuki’s Convenience Store Deployment Strategy 239

Introduction of the Franchise System 240

Product-by-Product Merchandise Management and “Hypothesis-Testing Ordering” 241

Case 20 Tadashi Yanai and Masayoshi Son: Exceptional Challenges Undertaken by the Two Risk Takers 245

Tadashi Yanai Before 2003 245

Uniqlo Kicks Off the “Made in China” Era 246

Tadashi Yanai Since 2004 248

Masayoshi Son Before 2006 250

Masayoshi Son After 2007 254

Discussion Point 4: Why Did Japan’s Economy Slow Down? ICT Revolution and “Disruptive Innovation” 257

Establishment of “First Mover Advantage” Through the ICT Revolution 257

“Disruptive Innovation” in the Innovator’s Dilemma by Clayton M. Christensen 258

“The Innovator’s Solution” and Answer to the Remaining Question 259

Conclusion: Reviving Innovation—Requirements for the “Two-Front Operation” 261

Summary of This Book 261

Ways to Revive Innovation 263

Notes About the Translation 265

Bibliography 267

Statistical Materials, Newspaper Articles, and Magazines 279

Name Index 281

Subject Index 285

About the Author

Takeo Kikkawa PhD in Economics, The University of Tokyo, is Vice President and Professor at the Graduate School of International Management, International University of Japan. He was Associate Professor at the Department of Business Administration, Aoyama Gakuin University; Professor at the Institute of Social Science, The University of Tokyo; Professor at the Graduate School of Commerce and Management, Hitotsubashi University; Professor at the Graduate School of Innovation Studies, Tokyo University of Science; Visiting Scholar at Harvard Business School; and Guest Professor at St. Gallen University, Yonsei University, and the Berlin Free University. He is Professor Emeritus of The University of Tokyo and Professor Emeritus of Hitotsubashi University.

His expertise is Japanese business history, and his main research field is the energy industry. He served as President of the Business History Society of Japan from 2013 to 2016 and is also a member of the Japanese Government's Advisory Committee for Natural Resources and Energy, METI (Ministry of Economy, Trade, and Industry).

He has published many monographs and articles, including *Policies for Competitiveness: Business-Government Relationships in the "Golden Age of Capitalism,"* co-edited with Hideaki Miyajima and Takashi Hikino (Oxford University Press, 1999), and *Ethical Capitalism: Shibusawa Eiichi and Business Leadership in Global Perspective*, co-edited with Patrick Fridenson (University of Toronto Press, 2017). He has received several academic awards, including the Energy Forum Award for his book, *Nippon Denryoku Gyo Hatten no Dainamizumu [Development Dynamism in Japan's Electric Power Industry]* (Nagoya University Press, 2004).

Introduction: What Is Innovation?



Schumpeter, Kirzner, and Christensen

Abstract This section serves as an introduction to this book, which discusses Japan's economic development by focusing on changes in the nature of innovation and framing them with the theories of Joseph A. Schumpeter, Israel M. Kirzner and Clayton M. Christensen.

The Aim of This Book: Three Questions

This book aims to clarify the course of Japan's economic development by focusing on changes in the nature of innovation. To do so, I focus on activities of trailblazing entrepreneurs who became the standard bearers of innovation in Japan.

It is important for a business historian to show major economic development trends in the past along with contemporary entrepreneurs' activities. As a member of the academic community involved in the study of business history, I decided to tackle this fascinating task, while drawing insights from the work of my predecessors.

When looking back at the business history of Japan, there are three questions that need to be answered.

First, why was it possible for Japan to get on a growth path so early? True, the Japanese economy took off later than that of the Western industrialized nations but Japan's economic ascent was the earliest among late developers. What made this early takeoff possible? To answer this question, we need to turn back the clock to the Edo period when the prerequisites for an early takeoff were developed.

Second, once on a growth path, how was the Japanese economy able to sustain one of the highest rates of growth in world history over an extended period of time? Having undergone its own industrial revolution in the early twentieth century, Japan went on to maintain the highest economic growth rate in the world from the 1910s through the 1980s. This rapid growth, although temporarily set back by the defeat in World War II in 1945, continued for almost 80 years in total. It is important to identify the factors that explain this resiliency and constancy.

Third, after the prolonged period of relatively high growth ended with the burst of the asset-inflated economic bubble in the early 1990s, why has the post-bubble

stagnation continued to this day? The 1990s were dubbed the “Lost Decade,” but soon it became the “Lost 20 Years,” then the “Lost 30 Years,” and continues to date. Uncovering the true causes of Japan’s economic slowdown is an essential task for a business historian in order to explore ways to revive Japan’s economy.

What Is Innovation: Three Views

To answer these questions, this book pays attention to the changing nature of innovation—first by clarifying what is meant by innovation. Broadly speaking, there are two distinct views of innovation: that of Joseph A. Schumpeter and that of Israel M. Kirzner.¹

In a series of works, including “The Theory of Economic Development,”² “Business Cycles,”³ and “Capitalism, Socialism, and Democracy,”⁴ Schumpeter proposed a dynamic view of innovation whose central feature is “creative destruction.” His concept of innovation emphasizes a new fusion of: (1) development of new products; (2) development of new manufacturing methods; (3) cultivation of new markets; (4) cultivation of new raw materials markets; and (5) organizational renewal. Such innovation can be characterized as “breakthrough innovation” or “radical innovation”—one that destroys the existing equilibrium.

Alternatively, in his book “Competition and Entrepreneurship,”⁵ Kirzner presents a view of innovation that assumes imbalance as an underlying condition, emphasizing a competitive process that aims for an optimal equilibrium. What is important is not the destruction of equilibrium, but rather the cumulative, gradual innovation process that creates equilibrium, or “incremental innovation.”

Of course, in real historical processes breakthrough innovations and incremental innovations can occur simultaneously i.e., these two distinct views of innovation can

¹The following explanation of views of innovation by Schumpeter and Kirzner is primarily from Abe, E. (1995). “Kakushin no gainen to keieishi” (*The concept of innovation and business history*) in Meiji University, Keiei ronshu (*Collection of papers on management*), 42(1). Note that in this paper, the term “kakushin (reformation)” is used rather than “innovation.”

²Schumpeter, J. A., (1977). *Keizai hatten no riron (jo) (Theory of economic development: A study of entrepreneurs’ profits, capital, credit, interest and economic rotation (I))* (Shionoya, Y., & Nakayama, I. & S. Tohata trans.). Iwanami Shoten Publishers.

³Schumpeter, J. A., (1958). *Keiki jyunkan ron (I) (Economic cycle theory: Theoretical, historical and statistical analysis of capitalism processes (I))* (The Japan Research Institute of Financial and Economic trans.; S. Yoshida supervisor). Yuhikaku Publishing Co., Ltd.

⁴Schumpeter, J. A., (1995). *Shihon-shugi, shakai-shugi, minshu-shugi (Capitalism, socialism and democracy)* (Nakayama, I., & S. Tohata, trans.). Toyo Keizai Inc.

⁵Kirzner, I. M. (1985). *Kyoso to kigyoka seishin: Bencha no keizai riron (Competition and business spirit: Ventures’ economic theory)* (Y. Tajima supervisor; M. Eda, I. Kobayashi, S. Sasaki, & T. Noguchi, co-trans.). Tokyo: Chikura Publishing Company. By contrast, Kirzner’s view of innovation prioritizes processes of competition toward optimal balance, assuming that imbalance exists.

coexist. Recently, however, a third, completely different view has emerged: “disruptive innovation,” advocated by Clayton M. Christensen of Harvard University in his 1997 book, “The Innovator’s Dilemma” (Harvard Business School Press).⁶

“Disruptive innovation” renders existing products obsolete and creates entirely new value, as opposed to incremental innovation that strives to continuously improve upon an existing product. Every so often, a low-priced new product is launched in a market filled with conventional products that are undergoing continuous quality improvement through incremental innovation. These newly introduced products are cheap, but their quality is so low that they are not initially taken seriously. However, the quality of such new products occasionally do reach a level that meets the minimum needs of the mass consumers in the market. At that point, the conventional, existing products still possess higher quality and price, but once the new disruptive product meets the consumers’ minimum needs, price competitiveness comes into play and the newcomer rapidly gains market share. Existing products then lose out devastatingly. This is the mechanism of “disruptive innovation” explained by Christensen.

Disruptive innovation, therefore, can be considered the “third view” on innovation, after breakthrough innovation and incremental innovation. In this book, cases with these three views of innovation in mind will be analyzed.

The Book’s Structure: Three Time Periods

This book will analyze the process of Japan’s economic development from the Edo period to the present, with the entire process divided into three time periods.

First, Part I covers the Edo period through the postwar period after the Russo-Japanese War (1904–1905). The reason for choosing the post Russo-Japanese War period as the period’s end point is that Japan’s Industrial Revolution was completed around the latter half of 1900s. Part I examines the first question: “Why was the Japanese economy able to take off so early and get on a growth path?”

Second, Part II encompasses the second time period from the 1910s to the 1980s when the Japanese economy maintained a high rate of economic growth relative to other major economies, with the exception of the 1940s when Japan was engaged in, and lost, World War II. Part II examines the second question: “How was it possible for Japan’s economy to sustain high growth over a long period of time, a rarity in world history?”

Third, Part III covers the period from the 1990s until the present. When the Japanese economy came to a standstill in the 1990s, it was dubbed the “Lost

⁶Christensen, C. M. (2011). *Inobeshon no jirenma: Gijutsukakushin ga kyodaikigyo wo horobosutoki zohokaiteiban (The enlarged and revised edition of the innovator’s dilemma: When technological innovation destroys a business giant)* (S. Tamada, Supervisor; Y. Izuhara, Trans.). Tokyo: Shoeisha Publisher.

Decade,” but the slump continued and before long it became known as the “Lost 20 Years” and even the “Lost 30 Years.” Part III examines the third question: “After the prolonged period of relatively high growth came to an end with the burst of the economic bubble in the early 1990s, why has the Japanese economy continued to stagnate to this day?”

Looking back at the entire process with the three types of innovation in mind, the first period can be roughly defined as the era of breakthrough innovation, the second as the era of incremental innovation, and the third as the era that was caught between breakthrough innovation and disruptive innovation. The reasons will be explained in detail following the analysis in each section.

Each part is further divided into three sections. The “Overview” section provides historical background for each period. The “Case Study” section profiles leading entrepreneurs and examines how they realized their innovations. The “Discussion Point” section highlights the characteristics of each period in terms of the nature of innovation. The book’s “Conclusion” summarizes findings from the various analyses offered throughout the book.

The “Case” sections focusing on the activities of trailblazing entrepreneurs comprise the central narrative. In business history and related academic fields, a vast number of case studies have been conducted on the innovative activities of entrepreneurs. While respecting the findings of case studies from existing scholarship, I add my own interpretations and finally articulate the broader historical picture. These are the quintessential methods that have underpinned the development of business history studies. Thus, I will first present the case study findings on the respective entrepreneurs from existing scholarship. I will then add my own interpretation to the best of my ability, to present a comprehensive picture of the history of Japanese innovation.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Part I
The Era of Breakthrough Innovations

Overview I: Edo Period



Abstract This section surveys the Edo period’s rapidly expanding economy that had two markets: the intra-Han within feudal domains and inter-Han market across feudal domains. It then focuses on the period’s three founders of innovative business practices: Zen’emon Konoike, Takatoshi Mitsui, and Genzaemon Nakai.

In the first half of Part I, we turn our attention to the Edo period.

Innovation often takes place in a corporate setting. In Japan, companies in the modern sense were not established until the Meiji period [1868–1912]. However, the earlier Edo period was important to the history of innovation in Japan, with, a growing number of scholars re-evaluating the Edo period in recent years as one characterized by novel developments leading up to the modern era. This revisionist view considers the Edo period to have experienced several notable innovations.

One key development were the advances in the market economy. The Edo period had two types of markets: the intra-Han market within feudal domains and the inter-Han market across feudal domains that covered the entire country. In the intra-Han market, commercial transactions were conducted between those living in urban centers near the castle (samurai, artisans, and merchants) on the one hand and farmers living in rural villages on the other. The size of the intra-Han market was considerably larger than a comparable market under a typical European feudal domain where a feudal lord and his subjects (mostly farmers) lived in the same geographical area. Moreover, surplus rice in each feudal domain was shipped to Osaka by sea for trading, and revenues were used to purchase goods not available locally (such as weapons, fertilizers, clothing, etc.), contributing to commercial activity at the national level.

Active trading across markets brought about rapid economic growth, particularly notable in the early Edo period (that began in 1603), or from the seventeenth century through the early eighteenth century. The following is a detailed depiction by the economic historian Matao Miyamoto:

It is estimated that the national population increased from 12 million to 31.28 million between 1600 and 1720. The national population stood at 5.5 million around 750 AD, so it only grew about two-fold in eight-and-a-half centuries leading to 1600. By comparison, we can see that the population grew rapidly from 1600 to 1720 [. . .] This increase in population

means that there was an increase in food production to support this. Between the Sengoku period [1467-1615] and the 17th century, there was unprecedented growth in farmland cultivation. The cultivated area increased from an estimated 2.07 million chobu [1 chobu is roughly 1 hectare] around 1600 to 2.93 million chobu by around 1720. This was not just a quantitative increase but an increase in fertile rice fields ideally located downstream of large rivers, ensuring stable irrigation. The high-yielding variety of rice (akamai) introduced at that time also contributed to increased food production. Double cropping, the use of fertilizer, and innovation in farm tools, such as the Bichu hoe, also helped. In addition, farmers who had been effectively enslaved under a traditional family-run business model moved to newly available plots to gain greater independence, leading to stronger incentives to increase production¹.

Thus, the early Edo period, from the seventeenth century to the beginning of the eighteenth century, was a period of unprecedented economic growth in Japanese history.

Another feature of “novel developments” in the Edo period was the emergence of entrepreneurial families who achieved rapid success with innovative business models in the growing market economy. The Konoike family diversified its business from the production and sale of sake to shipping and financial services. The Sumitomo family carried out investment with a long-term vision and successfully managed the Besshi Copper Mine (a mine directly controlled by the Edo Shogunate). The Mitsui family introduced innovations that transformed the Japanese retail industry, before expanding into the financial industry. These “three major merchant families” are representative of such players. Of these, the Sumitomo and Mitsui families subsequently grew into zaibatsu and formed large business groups that would lead Japan into the modern era.

The “three major merchant families” established their roots during the period of economic growth in the early Edo period. Although the pace of economic growth slowed from the mid-eighteenth century onward, active market trading spread across Japan bringing business opportunities. The Nakai family, one of the famed Omi Merchants, was an entrepreneurial family that seized such opportunities.

In the first half of Part I, we will focus on three founders of innovative business practices during the Edo period: (1) Zen’emon Konoike of the Konoike family; (2) Takatoshi Mitsui of the Mitsui family; and (3) Genzaemon Nakai of the Nakai family. Their business innovations might not necessarily be considered particularly radical from a global perspective, but it should not be forgotten that Japan was isolated from the rest of the world through *Sakoku*, the national isolation system completed in 1641 (Kan’ei 18). For these entrepreneurs, Japan represented the

¹Miyamoto, M. (2007). “Nihongata kigyokeiei no kigen” (The origins of Japanese-style company management) in Miyamoto, M., T. Abe, M. Udagawa, M. Sawai, & T. Kikkawa. *Nihon keieishi Edojidai kara nijuisseiki he (shinpan) (The new edition of Japanese business history: from the Edo period to the 21st century)*. Tokyo: Yuhikaku Publishing Co., Ltd. The estimated figures here are from Hayami, A., & M. Miyamoto. (1988). *Gaisetsu junanaseiki kara juhasseiki (An outline of the 17th to 18th century)*. In Hayami & M. Miyamoto (Eds.), *Nihonseizai-shi 1: Keizaishakai no seiritu, junanaseiki kara juhasseiki (Japanese economic history 1: The establishment of economic society, from the 17th to 18th century)*. Tokyo: Iwanami Shoten Publishers.

“world,” and their innovations in Japan were comparable to those in the rest of the world. In this sense, they can be regarded as breakthrough innovators.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 1 Zen'emon Konoike: Successive Innovations Impacting the Nationwide Market



Abstract This chapter introduces Konoike Zen'emon and the chain of innovations by the Konoike family that began with the development of new products, followed by the cultivation of new markets and renewal in logistics, culminating in the deployment of an innovative financial business.

The Konoike Family Tree

Shinroku Yamanaka (known later as Shin'emon), who is credited with establishing Konoike as a merchant family, was born in 1570 (Genki 1) in an era preceding the Edo period. He began transporting sake to Edo (the so-called "Edo Zumi" business) following his success in sake brewing around 1598–1600 (Keicho 3–5). After the establishment of the Edo Shogunate, Shinroku opened an Osaka store engaged in sake brewing and sales in 1619 (Genna 5).

Then in 1625 he started a water transportation business. A prominent figure in such shipping was Masashige, the eighth son of Shinroku, born in 1608. When Shinroku died in 1651 (Keian 3), Masashige inherited his father's Osaka store and assumed the name Zen'emon Konoike. Zen'emon's family, called the "Imabashi Konoike" as opposed to the original "Itami Konoike" branch, became the most prosperous among the Konoikes. Masashige died in 1693 (Genroku 6).

Yukimune (1643–96, Kan'ei 20—Genroku 9), who succeeded Masanari as the second head of the Imabashi Konoike family, assumed the name Kiemon. From the time of Yukimune, the Konoike family¹ began to focus on financial services, starting with the establishment of a money exchange business in 1656 (Meireki 2). In 1670

Unless explicitly noted otherwise, the description in case 1 is from Miyamoto, M. (1978). Konoike Zen'emon: Tenka no daidokoro wo sasaeta ryogaesho (*Zen'emon Konoike: Exchange merchant who supported Osaka finance*). In Sakudo Y., M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara (Eds.), *Edokishonin no kakushinteki kodo: Nihontekikeiei no rutsu (Innovative behaviors of Edo merchants: The roots of Japanese-style management)*. Tokyo: Yuhikaku Publishing Co., Ltd.

¹For simplicity, the expression "Konoike Family" is used to refer to the Imabashi Konoike Family.

(Kanbun 10), during the time of the second-generation family head Yukimune, the Konoike family introduced the “financial statement” as a commercial accounting book with a double entry structure.

Munetoshi (1667–1736, Kanbun 7—Genbun 1), the third head of the Imabashi Konoike family, assumed the name Zen'emon, with successive heads of the Konoike family also taking on that name. By the end of the Edo period, the name Zen'emon had been passed down for ten generations.² In this case study highlighting their innovative business practices, all the successive family heads will be collectively called “Zen'emon Konoike,” including the family's founder Shinroku Yamanaka, as well as the second patriarch Yukimune.

Munetoshi, the third Zen'emon Konoike, completed new land development projects (Konoike Shinden) in 1707 (Hoei 4) and established the “Iesadame Kiroku Oboe” in 1723 (Hoei 4) that would serve as the Konoike family's long-lasting constitution. The family precepts established under Munetoshi's reign prevented the dispersion of the Konoike family's wealth. Business-wise, Munetoshi stopped sake brewing and shifted mainly to lending to feudal lords (Daimyo lending).

The Konoike family's business continued even after the Meiji Restoration. However, the Konoike family never became a zaibatsu, in contrast to the Mitsui and Sumitomo families that were part of “the Big Three merchant families” of the Edo period, and evolved into zaibatsu during the Meiji period.

Development of Clear Sake and Its Shipment to Edo

The first in a series of business innovations by the Konoike family was the development of clear sake [Seishu]. It is said that the clear sake we know today, different from the traditional cloudy sake, was created at the end of the Middle Ages. Thus, the Konoike family did not truly invent clear sake. It is also assumed that others were already engaged in the so-called “Edo Zumi,” or transportation of sake to Edo. Matao Miyamoto asked the following question and then provided his answer: “Why is Konoike still regarded as the founder of sake brewing and Edo Zumi in various studies?”³ Miyamoto then proposes an answer: “Konoike's sake, based on advanced technology, gained a higher reputation than his competitors' products, perhaps the reason why Konoike was talked about as an innovator in this industry.”⁴

Miyamoto describes the “new business” launched by the Konoike family—the shipment of clear sake to Edo—as follows:

1) At first, they used a two-to vat [one “to” is about 18 liters], but when they saw strong demand they replaced it with a four-to camphor vat, and counting a pair of vats on a horse as a single horse load they regularly made dozens of such shipments to Edo by land; 2) The

² Konoike Kiemon-Yukimune, the second president, is included.

³ *Op. cit.*, Miyamoto, M. (1978). *Zen'emon Konoike*, p. 55.

⁴ *Ibid.*, p. 56.

shipments were sold directly to the daimyo estates; 3) According to the first single shipment of 4 to, the cost for one round trip to Edo was 350-360 mon, with sales at 8 kan mon. Thus, the gross profit margin was an astonishingly high 7 kan 650 mon to 7 kan 640 mon⁵. . . . The profit Konoike made from the Edo Zumi business can be characterized as the founder's profit – one deriving from two innovative practices: selling a new product, in a newly cultivated market.⁶

The Beginning of [Konoike's] Water Transport Business

As the scale of sake shipment to Edo increased, the Konoike family switched the transportation method from land to sea, thus initiating its water transport business. At that time in 1625 (Kan'ei 2), “Shinroku was 56 years old and Masanari was eighteen years old.”⁷ The Konoike family's innovation, beginning with the development of a new product (clear sake), led to the innovation in logistics (its foray into the water transport business) following the cultivation of the new market (Edo Zumi or clear sake shipment to Edo). This was indeed a “chain of innovations.”

Miyamoto wrote of the first Zen'emon Konoike, Masashige, who focused on the shipping business: “With more than 100 man-powered boats, he reportedly transported his own sake and general cargo, especially rice consignment from feudal lords in the western part of the country,”⁸ adding: “However, it seems that the shipping business never became the main business of the Konoike family.”⁹

Expansion into Financing and Lending to Daimyo

The Konoike family's main business following the second generation Zen'emon Konoike, Yukimune, was financial—starting a money exchange business in 1656 (Meireki 2). At that time, “first-generation Masashige was 48 years old, and second-generation Yukimune was 14 years old.”¹⁰

Miyamoto explains how the Konoike family shifted to the financial business relative to the general trend of wholesalers at the time:

In the early days, Konoike's commodity trading was, so to speak, "yorozu-ya" style, handling many types of products. This broad range of products handled by Konoike can be attributed to the fact that the family entered the commodity trade with a variety of opportunities, including sake brewing, sales of sake to Edo, and the shipping business. This "yorozu-ya" style of business was a common characteristic of wholesalers in the first

⁵ *Ibid.*, p. 57.

⁶ *Ibid.*, p. 58.

⁷ *Ibid.*, p. 59. The figure uses East Asian age reckoning.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ *Ibid.*, p. 63.

half of the 17th century. In contrast, many of the wholesalers that emerged from the latter half of the 17th century were specialized wholesalers. Unlike the early wholesalers who sold various products mainly on consignment from others, this new generation of wholesalers sold their own products on their own accounts. Parallel to the rise of specialized wholesalers, money changers emerged as financial specialists. This socioeconomic shift toward commercial and financial specialization was the background of Konoike's gradual withdrawal from commodity trading and full-scale entry into the money exchange business from the Genroku period onward.¹¹

As mentioned in Overview I above, one of the key aspects of “novelties” in the Edo period was the significant development of a market economy that was divided into two parts: one within a feudal domain [intra-fief] and the other crossing the borders of feudal domains [inter-fief]. The inter-fief market can be described as a “Shogunate-controlled commodity distribution system.” According to Miyamoto, the Konoike family’s financial business occupied a “central position” in this:

The Konoike’s linked the flow of money from the daimyo side (Osaka to Edo) and the merchant side (Edo to Osaka) through the issuance of money orders, reducing the social cost of sending and receiving cash by converting it to money order fees. This enabled them to function as specialized financiers that facilitated commodity transactions. Konoike’s service was indispensable in the circulation of goods and money under the Shogunate system in which the annual tribute rice collected under the Kokudaka system is exchanged for cash in Osaka, and the money is sent to Edo for the purchase of consumer goods shipped from Osaka to Edo. In this sense, Konoike came to occupy the central position within the Shogunate-controlled commodity distribution mechanism.¹²

The Konoike family, which had come to focus on finance, withdrew from the family’s original business of sake brewing after the death of the second patriarch, Yukimune. From the third Zen’emon, Munetoshi, the Konoike family concentrated on financial lending to feudal lords. Miyamoto offers an interesting argument:

Lending by merchants to feudal lords, or “daimyo lending,” is often considered to have become a necessity for impoverished feudal lords, as merchants were growing increasingly wealthy. However, this view is not necessarily correct. It is true that the impoverishment of the Daimyo was a reality back then, and as a result cases of non-payment or defaulting were present since the early days. However, if the impoverishment of the Daimyo was a long-term trend and the merchants were aware of this fact, no rational merchant would have continuously extended loans to such “bad corporations.” Nor would they have established the money changing business as their full-time occupation. Regardless of the outcome, behind the decision by Konoike and others to specialize in “daimyo lending” there must have been the belief that this was a lucrative and stable business. Their belief lay in the recognition that the feudal lords had a solid economic foundation so long as they controlled the land, the greatest source of wealth at the time, and rice, the largest commodity.¹³

¹¹ *Ibid.*, p. 62.

¹² *Ibid.* pp. 67–68.

¹³ *Ibid.* p. 78.

From all this Miyamoto concludes that “Konoike’s daimyo lending was lending tied to the shipping service for rice and other tribute goods, and in this respect their daimyo lending was innovative.”¹⁴

“Financial Statement” and Double-Entry Bookkeeping

As we have seen, the chain of innovations by the Konoike family that began with the development of new products, followed by the cultivation of new markets and renewal in logistics, culminated in the deployment of an innovative financial business. In the process, the Konoike family pioneered accounting practices that are important even from a global perspective: establishing the “financial statement” in 1670 (Kanbun 10) within the family. This ledger is “one of the oldest surviving double-entry accounting books used by a merchant family.”¹⁵ Accounting historian Noboru Nishikawa states:

During the Edo period, as a result of the Sankin Kotai system [a periodic requirement for feudal lords to serve in Edo away from their home], credit transactions developed between Kyoto (the industrial center) and Osaka (the center of commerce and trade) on one end, and Edo (the capital of consumption) on the other. [...] In the late 17th century, double-entry bookkeeping developed among the large merchant families of the Kansai region. The surviving examples of double-entry bookkeeping from the 18th century are almost exclusively from large merchant families in the Kansai region.¹⁶

The Konoike family's financial statement is representative of the double-entry ledger¹⁷ developed in the late 17th century in the large merchant families of the Kansai region, as noted by Noboru Nishikawa. He describes it as follows:

There are various theories but no conclusive evidence as to whether the double-entry bookkeeping techniques used during the Edo period originated in Japan or were introduced from Europe through the Shogunate-controlled Nanban trade [with overseas]. However, not

¹⁴ *Ibid.* p. 79.

¹⁵ *Ibid.* p. 69.

¹⁶ Nishikawa, N. (2004). *Shoka no choaiho to zaimu-kanri (Merchant families' accounts-balancing method and finance management)*. In The Business History Society of Japan, & H. Yamazaki (Eds.), *Nihon keieishi no kiso chishiki (Basic knowledge of Japanese business history)*. Tokyo: Yuhikaku Publishing Co., Ltd. The calculation notepad of the Konoike family was representative of the double entry bookkeeping format developed among the giant commerce families in and around Osaka in the latter half of the 17th century, as noted by Noboru Nishikawa.

¹⁷ According to Noboru Nishikawa, “the essence of double entry bookkeeping is that all transactions are understood from the two points of view in recording them and that the balance sheet, the profit and loss statement, and other financial statements can be created based on the calculation of the account books” (*op. cit.*, Nishikawa, N. (2004), p. 22). Nishikawa concluded that “it can be said that the high-class account books were a type of double entry bookkeeping,” (*ibid.*, p. 22), introduced by the commercial families in Osaka area in the latter half of the 17th century.

even traces of Italian-style bookkeeping¹⁸ have been found in surviving historical artifacts. Thus, taking into account the development of long-distance trade and credit economies in the late 17th century Japan, the Japanese-style double-entry bookkeeping practice is thought to have emerged indigenously.¹⁹

Based on Nishikawa's view, the Konoike family created their double-entry bookkeeping system on their own. As Japan was largely cut off from the rest of the world under its isolationist policy, domestic Japan meant the "world" for the Konoikes. In this sense, the Konoike family created the "world's first" double-entry bookkeeping system, and they can be rightly called a breakthrough innovator.

The Konoike Family After the Meiji Restoration

The series of innovations introduced by the Konoike family continued through four generations: Shinroku Yamanaka, the founder; Masashige, who was the first Zen'emon; Yukimune, the second Zen'emon; and Munetoshi, the third Zen'emon. In subsequent generations, however, the Konoike family's innovative streak came to a standstill. Daimyo lending, once a thriving business model in terms of its link to transport of tribute rice and other goods, had fallen to "a catastrophic state in the nineteenth century"²⁰ due to the decline in profitability following the upheaval in the Shogunate system. Miyamoto sums up the situation of the Konoike family after the Meiji Restoration as follows:

During the end of the Shogunate and the start of the Meiji Restoration period, the family's assets substantially decreased, abetted by inflation. In addition, about three-fourths of the Daimyo lending bonds, amounting to about 1.2 million ryo in total, were written off by the new Meiji government, and the family suffered a major blow. In 1877 (Meiji 10), the 10th generation Zen'emon, Yukitomi, together with branch family members, established the 13th National Bank. This bank became the privately owned Konoike Bank in 1897 (Meiji 30), then the Konoike Bank Kabushiki Kaisha in 1919 (Taisho 8), and in 1933 (Showa 8) merged with the Sanjushi Bank and with the Yamaguchi Bank to become the Sanwa Bank. During the Meiji period, the Konoike family as one of the wealthiest merchants in Osaka took a stake in new businesses such as the Osaka Trade and Exchange Inc., Horaisha, Nippon Life Insurance, and Osaka Warehouse, but did not actively participate in the management of these companies. Konoike adopted a conservative approach of maintaining the family fortune through its focus on the banking business, and in 1921 established the Konoike Gomei Kaisha, but did not go so far as to form a zaibatsu.²¹

Unlike Mitsui and Sumitomo, Konoike did not grow to be a zaibatsu, due to the conservative attitude of its management team, according to Miyamoto. Konoike,

¹⁸The technique of European style double entry bookkeeping was completed in Italy toward the end of the 15th century; it spread throughout Europe under the name of "Italian bookkeeping." See *op. cit.*, Nishikawa, N. (2004), p. 22.

¹⁹*Op. cit.*, Nishikawa, N. (2004), p. 22.

²⁰*Op. cit.*, Miyamoto, M. (1978). *Zen'emon Konoike*, p. 81.

²¹*Op. cit.*, Nishikawa, N. (2004), p. 74.

developing a series of innovations for over four generations starting with the founder, veered off the growth path over time because of its conservatism. How ironic history is.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 2 Takatoshi Mitsui: New Business Opportunities and the Retail Revolution



Abstract This chapter introduces Takatoshi Mitsui, one of the “Big Three Merchants” and his retail innovation in the Edo period.

Brief Biography of Takatoshi Mitsui

Takatoshi Mitsui (1622–94, Genna 8—Genroku 7) was the man who brought prosperity to the Mitsui family, one of the “Big Three” merchants. Takatoshi was born in Ise-Matsusaka (Matsusaka City, Mie Prefecture) in 1622 (Genna 8).

The Mitsui family’s ancestor was a small-scale feudal lord serving the Rokkaku clan, but when that clan was defeated in a battle against Nobunaga Oda, the lord fled to Ise. By the lifetime of Takatoshi’s father the family had come to operate a pawn shop as well as a business dealing in sake, miso, and soy sauce in Matsusaka. The store brand “Echigo-ya” was derived from [the younger] Takatoshi’s grandfather, Takayasu Mitsui, who held the title “Echigo-no-kami” (guardian of Echigo province). However, the older Takatoshi’s wife and the younger Takatoshi’s mother, Shuho, actually ran Echigoya’s day-to-day business operation. In the “The Mitsui Mind that was Cultivated in Matsusaka,” published by the Mitsui Public Relations Committee, states:

While Takatoshi [the younger] is considered the founder of the Mitsui Group, he did not start his business from scratch. His mother Shuho was a very intelligent woman, so skilled in business that she practically managed the “Echigo Lord's Sake Brewery” at that time. She was extremely thrifty, but at the same time very generous and faithful to her customers. The youngest of four sons and four daughters, Takatoshi probably grew up watching his mother when she was at her best as a merchant.¹

A major turning point for Takatoshi was his first trip to Edo at the age of 14 (under the traditional Japanese age counting system). Makoto Seoka describes subsequent events as follows:

¹Mitsui Public Relations Committee, Mitsuike hassho no chi: Matsusaka (*The Land of Mitsui’s origin: Matsusaka*). <https://www.mitsuipr.com/history/edo/01/> The original was published in “MITSUI Field,” the communication magazine of the Mitsui Group, vol. 3, 2009 Summer.bu.

Takatoshi first went to Edo in 1635 (Kan'ei 12). At that time, his father had already passed away and his mother had joined a Buddhist temple and was living a monastic life. Takatoshi's reason for going to Edo was to help his eldest brother Toshitsugu run the Edo branch of the business. At the time, Toshitsugu had his own store in Kyoto and left the operation of the Edo branch to his younger brother, Shigetoshi. But four years later, Shigetoshi returned to Matsusaka to support the family's aging mother. As a result, Takatoshi became the Edo store manager and the business thrived. He worked hard, dreaming of becoming a "Kyoto merchant who owns a store in Edo." However, back in Matsusaka, Shigetoshi died at the young age of 36. Then Toshitsugu, who had always felt threatened by Takatoshi's outstanding entrepreneurial abilities, used Shigetoshi's death as an excuse to order Takatoshi to return to Matsusaka to take care of their elderly mother.²

After returning to Matsusaka in 1649 (Keian 2), Takatoshi Mitsui eventually started his own financial business, lending also to feudal lords. In 1673 (Enpo 1), after the death of his eldest brother Toshitsugu, Takatoshi opened a kimono store in Honcho 1-chome, Edo. Takatoshi, who became the patriarch of the Mitsui family, introduced innovative storefront sales (Tanasaki Uri) that later came to be known as the "Edo marketing method." He achieved great success with a series of retail innovations, to be discussed in detail in the next section. Takatoshi's mother, Shuho, passed away in 1676 (Enpo 4).

Takatoshi Mitsui, achieving great success with his "Edo marketing method," moved his business headquarters from Matsusaka to Kyoto in 1686 (Jokyo 3). He opened a money exchange store, setting the stage to focus on the financial business. Four years later in 1690 (Genroku 3), the Mitsui family, under the name "Echigoya Hachirobei-Mitsui Jiroemon", received an order to oversee the Osaka Gold and Silver Exchange of the Shogunate.

In 1694 (Genroku 7), Takatoshi died. Shortly before his death he ensured that his estate would not be divided among his children for the rest of their lives by drafting a will that included instructions for handling his property.

Groundbreaking Nature of "Tanasaki Uri" (Store-Front Sales)

What kind of retail innovation did Takatoshi Mitsui introduce at his Edo store? The Mitsui Public Relations Committee publication, "The Birth of Echigo-ya and Takatoshi's New Business Method," explains:

When his male children reached the age of 15, Takatoshi sent the boys to apprentice with merchants in Edo. He also sent other young men that he recognized as having potential to Edo as apprentices, steadily laying the groundwork for his future success in Edo. In Enpo

²Seoka, M. (1978). Mitsui Takatoshi: Edo-shoho no soshisha (Takatoshi Mitsui: Initiator of Edo-style business). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara (Eds.), *Edoki shonin no kakushinteki kodo: Nihonteki keiei no rutsu (Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management)* (pp. 151–152). Tokyo: Yuhikaku Publishing Co., Ltd.

1 (1673), 24 years after Takatoshi returned to Matsusaka, his eldest brother Toshitsugu died of illness. With his mother's permission, Takatoshi decided to relocate to Edo, achieving his long-cherished dream. Takatoshi was already 52 years old. His sons, who were in training in Edo at the time, included: the eldest, Takahira, 21 years old; the second, Takatomi, was 20; and the third, Takaharu, was 17. Takatoshi instructed his sons to rent a small store in Edo Honcho 1-chome, the most prestigious kimono district in Edo, and opened "Mitsui Echigo-ya Drapery Shop" (Echigo-ya) under the brand name "Echigo-ya Mitsui Hachiroemon". He next opened a purchasing office in Kyoto managed by Takahira, and the Edo store by Takatomi. Takatoshi did not go to Edo but issued instructions from Matsusaka.

The trade name "Echigo-ya" was inherited from a store in Matsusaka. The name "Hachiroemon" comes from the fact that Takahira changed his own name to "Mitsui Hachiroemon Takahira" emulating (his father) Takatoshi's adulthood name "Mitsui Hachirobei Takatoshi." The name "Hachiroemon" became the honorary family name of the Mitsuis, assumed by successive generations of the patriarchs.

Although he assigned experienced children and staff members to his newly opened kimono stores, there were already several large, well-established kimono stores in Edo at the time. But Takatoshi developed brand new business methods through his ingenuity. His representative business practices were "store-front sales" and "selling products in cash without credit." At that time, the two most common methods of selling kimono at first-class kimono stores were "Misemono Uri" (demonstration sales) in which the shopkeeper would go to a customer's home, show the customer a sample, take an order, and tailor-make the kimono, or "Yashiki Uri" (house sales) in which the shopkeeper would bring the pre-made goods directly to the customers and sell them. Payment was made either twice a year at the Bon Festival time [summer] and at the end of the year, or once a year in December. As a result, nonpayment and interest inflated the price tag, leading to poor turnover of funds. Takatoshi abolished this system and switched to store-front sales, lowered the price, clearly stated the price, and encouraged cash-only transactions. The revenue from cash-only sales accelerated the turnover of funds, and this was especially useful to suppliers who received payments twice a year. Another novelty was the practice of "Kiri Uri" (fractional sales) which was forbidden among kimono dealers at the time, as kimono fabric was sold only by fixed length. However, Takatoshi sold it in custom lengths in response to customer demand, and thus cultivated a huge new market among Edo townspeople. In addition, the "tailoring sales" (shitate uri) service, in which tailoring was done instantly on the spot, also became very popular. Echigo-ya eventually became known to the townspeople as an equal to other prosperous venues such as theaters and fish markets (Shibai Senryo, Uogashi Senryo, Echigo-ya Senryo), who all earned 1,000 ryo daily.³

The traditional “demonstration sales” and “house sales” were retail methods that targeted wealthy individuals who could afford to own their own large houses. In contrast, the “store-front sales” initiated by Takatoshi Mitsui were for mass market customers. By the late seventeenth century, the market economy in Edo had developed enough that townspeople could walk in and purchase kimono. Seizing this new business opportunity, Takatoshi spearheaded a groundbreaking innovation in retailing: the Edo marketing method.

³Mitsui Public Relations Committee, Echigo-ya tanjo to Takatoshi no shinshoho (*The birth of Echigo-ya and Takatoshi's new business method*). <https://www.mitsuipr.com/history/edo/02>

The Ground-Breaking Nature of Takatoshi Mitsui's Retail Innovation

Business historian Masahiro Uemura labels the retail innovation by Takatoshi Mitsui as “cash-only, clearly marked price sales,” describing it as follows:

Among the marketing methods of the Edo period, the “cash-only, clearly marked price sales” method is considered unique and epoch-making. This has become established as a contemporary sales method, a low-profit, high-volume method of selling goods. During the Edo period, continuous and long-term commercial relations were the norm, so credit sales were established as a standard practice, and the retail industry was no exception. It was the Mitsui family who developed an innovative commercial method to break such norms and succeeded in rapidly expanding its business.⁴

The cash-only sale of kimono with clearly marked prices was introduced by Takatoshi Mitsui, the founder of the Mitsui family. It was an innovative sales method that broke with conventional practice, along with selling wholesale to regional merchants, store-front retailing, and fractional sales of kimono fabric. Traditionally, it was common for a kimono merchant to visit samurai mansions in Edo individually, take orders based on the customer's needs, and then sell products on a credit basis. However, as Edo grew rapidly, there was a great demand not only from samurai families but also from the general public. In order to meet these new demands, a new way of sales became necessary. Takatoshi Mitsui opened a store in Honcho 1-chome in Edo in 1673 (Enho 1), but in order to stand out amid a group of older, established stores, he needed to devise a new business method. Thus, the cash-only, clearly-marked price sales method was born. Since there was no need for bargaining, new customers had peace of mind when purchasing goods, and because transactions were settled in cash, the price was kept low, allowing for a casual shopping experience. Also, for Mitsui, since cash sales enabled quick and reliable cost recovery and cost reduction, mass sales became possible. It saved time involving price negotiation and was suitable for a city like Edo, a crossroad for large unspecified numbers of people.⁵

As Uemura notes here, the retail innovation implemented by Takatoshi Mitsui subsequently “took root as a contemporary sales method.” Front-of-store sales, replacing traditional methods such as “demonstration sales” and “house sales,” subsequently became the dominant retail method, continuing to this day. It is only recently that e-commerce has come to shake up store-front sales. Although the advent of this type of retailing was found in other countries, it is important to note that Takatoshi Mitsui introduced it while Japan was closed to the world. Japan was separated from overseas under the isolationist policy, and for Takatoshi as well as other merchants, Japan was the “world.” Under such circumstances, Takatoshi, who introduced the “world's first” retail revolution, was another standard bearer of

⁴Masahiro Uemura noted that “Of course not all of the sales of fabrics by Mitsui were settled with cash; conventional credit sales were also in use, and in some cases credit sales were increasing.” In Uemura, M. (2009). *Maaketingu to butsuryu (Marketing and logistics)*. In M. Miyamoto, & M. Kasuya (Eds.), *Koza Nihon keieishi daiikkan: Keieishi, Edo no keiken 1600–1882 (Vol.1 of a lecture on Japanese business history: Edo experience 1600–1882)* (p. 238). Kyoto: Minervashobo.

⁵*Op. cit.*, Uemura, M.. (2009), pp. 225–226.

breakthrough innovation, as in the case of the Konoikes who introduced double-entry bookkeeping.

Introduction of the Joint Ownership System

With the success of Takatoshi Mitsui's retail innovation, the Mitsui family made great advances and became one of the "Big Three Merchants". The Mitsui family's business had two pillars: a kimono dealer and a money changer. In 1710 (Hoei 7), the family established "Omotokata" as an organization that supervised both their kimono stores and their money changing businesses.

It was Takahira, the eldest son of Takatoshi Mitsui, who created "Omotokata." Takahira also followed in the footsteps of his father in handling family property. As noted, Takatoshi had created a mechanism to keep the family property from being divided during his children's lifetime. Takahira institutionalized this within the family's constitution by personally preparing the document "Sochiku's Will."⁶

Miyamoto explains this development as follows, based also on Shigeaki Yasuoka's theory:

In the case of the Mitsui family, the founder Hachirobei Takatoshi, hailing from Ise-Matsusaka, went to Edo, opened a kimono shop, and made a fortune. By the time of his death in 1694 (Genroku 7) he owned kimono stores and money changing stores in Edo, Kyoto, and Osaka, and continued to run multiple stores. Three months before his death, Takatoshi wrote a will with instructions on the division of the property. The total assets were to be divided into 70 parts, and a total of 6 sons and 3 sons-in-law (adoptees of the Mitsui family), a total of 9 people, were to be given the inheritance in proportions prescribed by Takatoshi. However, after Takatoshi's death, the heirs submitted a letter to his eldest son, Takahira, requesting that the bequeathed assets be managed without splitting it as their common property.⁷

While the pledge submitted by Takatoshi's heirs to the second-generation patriarch, Takahira, was valid for only one generation, Takahira wrote a will (called Sochiku's Will) in 1722 (Kyoho 7), according to which the "principal money" was to be divided into 220 parts. He did not approve individual claims by equity right holders, but rather established collective asset management as the house rule. Since then, the equity interest of "Omotokata" has been held only by Mitsui's nine families (later increased to 11 families). In addition, division of ownership and disposal of assets was not allowed, and each household, as a rule, practiced sole inheritance. So ownership became exclusive and permanent.

According to Shigeaki Yasuoka, it is more accurate to explain the ownership of the Mitsui family's "Omotokata" through the concept of "Gesamteigentum" (joint ownership) of Germanic village communities, rather than that of "Miteigentum" (co-ownership) in line with Roman law. In other words, in "joint ownership," the group of asset owners has the right to

⁶"Souchiku" is the Buddhist name of Takahira Mitsui.

⁷Miyamoto, M. (2009). Shijo to kigyo (*Markets and companies*). In *op. cit.*, M. Miyamoto, & M. Kasuya (Eds.), *Vol.1 of a lecture on Japanese business history: Experience of business history: Edo Experience 1600–1882* (p. 63).

manage the entire asset, and each of asset owners has the right to claim profits from the asset he owns. As stressed by Yasuoka, joint ownership was the concept underlining the Mitsui family's approach toward "Omotokata."⁸

Since the joint ownership system introduced by the Mitsui family did not allow for the division of family assets and blocked any individual property owners' rights to dispose of property, it served to restrict ownership. In time, store managers grew more powerful than Mitsui family members, and consequently the family came to hire professional managers during the Meiji period. The hiring of professional managers laid the conditions for Mitsui's development as a zaibatsu, as will be discussed in Cases 4 and 5 of this book.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



⁸ *Ibid.* p. 64.

Case 3 Genzaemon Nakai: A Regional Merchant Thriving on the National Stage



Abstract This chapter introduces Genzaemon Nakai, a lacquerware merchant from the Omi region (Shiga Prefecture), and the establishment of a new goods circulation business model based on a network of joint ventures.

The Rise of Omi Merchants

Merchant families that introduced innovative practices during the Edo period were not limited to the “Big Three Merchant Families,” Konoike, Sumitomo, and Mitsui. The Nakai family, one of the Omi merchants to be discussed in this chapter, were also standard-bearers of innovation. Author Yotaro Sakudo first presents Schumpeter’s theory of innovation with creative innovation as its core concept, and then asks whether it is possible to verify the existence of such creative innovators in the Edo period.¹ Sakudo goes on to say that “Schumpeter’s perspective is also extremely useful in examining the nature of innovation regarding merchants’ entrepreneurial activities during the Edo period”²:

These families are all engraved with the history of innovative entrepreneurial activities. The Konoike family, which started off with sake brewing business, moved on to the shipping business, and then started a money changing business, before establishing daimyo lending as its core business; the Sumitomo family, which started from pharmaceuticals and publishing, and later changed to copper refining, ran diversified businesses involving copper trading and copper mining, currency exchange, and rice warehousing; the Mitsui family accomplished the contemporary Edo merchants' dream of becoming the "Kyoto merchant with an Edo store" through kimono and money exchange businesses; the Nakai family accumulated capital through the "mochikudari akinai" business [selling their home region's product in another region and bringing back the other region's product for sale at home], using the Omi

¹Sakudo, Y. (1978). Edoki shonin no keifu to tokushitsu (*The genealogy and features of merchants in the Edo period*). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara, (Eds.), in *op. cit.*, *Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management* (p. 3).

²Ibid.

Hino region's medicinal products, opening stores in various parts of Japan such as Sendai, Otawara, Nagoya, Onomichi, and Kitsuki, in addition to Osaka, Kyoto, and Edo.³

In other words, Sakudo regards the Nakai family as an embodiment of innovation on a par with the “Big Three Merchant Families.” As already mentioned in [Overview I](#), one key aspect of “novelties” in the Edo period was the development of the market economy that brought about expanded business opportunities to regional merchants such as those in the Omi region. It became possible for them to enlarge their business, peddling and opening stores all over the country, and to accumulate capital—a brand new business model at the time.

Masamichi Mizuhara explains:

The extent of Omi merchants' capital accumulation through peddling was manifested in the form of store openings. They also used these outlets as a foothold for the peddling business, but gradually shifted to store management, opening outlets wherever they were likely to be able to eat “rice from a pot” or locations of a large consumer population, except Hokkaido. At their outlets, Omi merchants sold their goods to local merchants, and also travelled, peddling their wares in surrounding farm villages. However, since these were mainly credit sales, the cash-strapped farmers were often forced to produce merchandise requested by Omi merchants, in lieu of cash payment. This consequently led to the development of the commodity trade in the Edo period. For example, the 4th generation Genzaemon of the Nakai family was commissioned to promote industry in the Sendai territory. He lent funds to the locals to increase the production of raw silk and safflower.

Omi merchants set up branch networks across Japan and played a role in promoting the development of the monetary economy. Typically, family headquarters remained in Goshu,⁴ and wives and children also stayed there. The Omi merchants did not keep merchandise in their home region but rather gave instructions to branch managers who were in charge of running regional outlets. The head of the family traveled almost year-round to inspect his regional outlets, a practice known as “Mise mawari.”⁵

Thus, the advancement of commodity trading during the Edo period was a prerequisite for Omi merchants to play an active role on a national scale. In turn, the activities of Omi merchants, including those of the Nakai family, further promoted the commodity trade, leading to synergy between the two.

³ *Ibid.*, p. 6–7.

⁴ Another name of Oumi no koku.

⁵ Mizuhara, M. (1978). Nakai Genzaemon: Omi shonin no tatenpo keiei (*Genzaemon Nakai: Omi merchants' management of multiple stores*). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara (Eds.) in *op. cit.*, *Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management* (p. 179).

The Nakai Family Tree⁶

The ancestors of the Nakai family moved to Hino, Omi (Hino-cho, Gamo-gun, Shiga Prefecture) around 1584 (Tensho 12). They engaged in the manufacture and sale of Hino lacquerware (Hino Nuri) and expanded their peddling area, but after the death of the family head Mitsuharu in 1725 (Kyoho 10), the family rapidly fell into hardship. The family was saved from crisis by Mitsuharu's heir, Mitsutake, who solidified the foundation of the Nakai family. Through hard work, Mitsutake, born in 1716 (Kyoho 1), gradually increased the family's wealth from 1734 onward (Kyoho 19) by peddling Hino's specialties, such as lacquerware, compound medicine, and "futomono" textiles.⁷

According to Masamichi Mizuhara, "The first full-scale regional outlet was established in 1749 (Kan'en 2) in Otawara, Shimotsukeno-kuni [today's Tochigi Prefecture area], located in a strategic geographical area leading to the Oshu region [today's Tohoku region]. This was when Mitsutake was 34 years old. Although his initial capital was two ryo, by that time it had grown to 775 ryo and 1 bu."⁸

Mizuhara continues:

At the Otawara store, the types of products handled grew to include multiple varieties of medicines in addition to the existing compound medicine and "futomono" fabric, and the concurrently run joint venture pawn shops and breweries also expanded from the Kanto region to the southern part of Ou region, securing a foothold for expansion into the Tohoku region. Thus, in 1769 (Meiwa 6), when the family's business celebrated its 35th anniversary, total assets had reached 7468 ryo and 2 bu, and the family was listed in Japan's ranking of highest earners. That year that the Nakai family made great strides. They simultaneously opened outlets in Sendai, Fushimi, and Tango, with the family fully shifting from peddling to a store-based business. The purpose was to carry out the so-called "goods circulation" (sanbutsu mawashi) method of trade: First, transport cotton fabrics and "furute"⁹ that were in poor supply in the Tohoku region to Tohoku from the Kansai region. Then transport raw silk, safflower, and "aoso"¹⁰ from Tohoku to Kansai. Thereafter, transport raw silk to the textile manufacturing areas of Kyoto or Tango.¹¹

The deployment of this "goods circulation" method on a large scale using a type of intra-company, product forwarding mechanism was the innovative business model through which Mitsutake managed to revive the family's fortune. The prerequisite for its success was the development of a national-scale market during the Edo period, but the Nakais in turn also helped encourage such a development. Some of the stores opened by Mitsutake were unsuccessful, but as a whole the store network continued to grow as a whole, with openings in Soma, Imaichi, Edo, and Kyoto and elsewhere.

⁶The description of this period comes primarily from op. cit., Mizuhara, M. (1978), pp. 184–191.

⁷Textiles with thick threads.

⁸*Op. cit.*, Mizuhara, M. (1978), p. 186.

⁹Old and used clothes etc.

¹⁰A perennial in the nettle family, used as a material of high-grade textiles.

¹¹*Op. cit.*, Mizuhara, M. (1978), pp. 186–187.

“The most successful one was the Sendai store, which in 1803 (Kyowa 3) had assets of over 49,405 ryo on a stand-alone basis.”¹²

Mitsutake, who effectively founded the Nakai family, had come to assume the name Genzaemon. After that time, the name was passed down from generation to generation. In the present “Case 3,” the founder Mitsutake and other successive Genzaemons will be collectively called “Genzaemon Nakai,” and their business activities examined. Mitsutake retired in 1794 (Kansei 6), handing over the leadership to his second son, Mitsumasa.¹³ Mitsutake died in 1805 (Bunka 2).

Mitsumasa, the second generation Genzaemon Nakai, adopted the business model pioneered by his father and continued to open stores nationwide in places such as Osaka, Uzen-Tendo, Rikuzen-Ishinomaki, and Bungo Kitsuki. Mizuhara states that “In 1797, Mitsumasa inherited a fortune of 30,100 ryo, but he was a remarkably talented businessman, and increased his assets to 56,299 ryo by the time of his death just over a decade later, in 1808 (Bunka 5).”¹⁴ It is notable that in the “Nakashi Seiyo,” a collection of family precepts, Mitsumasa warned against joining forces with feudal powers.

The Nakais continued to open new outlets during the leadership of the third generation Genzaemon, Mitsuhiro. These were the Nagoya store and the Minato store (a branch of the Ishinomaki store). According to Masamichi Mizuhara, “Mitsuhiro increased the family’s wealth from over 50,000 ryo to over 110,000 ryo in the twenty-five years before his death at the age of 48 in 1833, so that he too fully utilized his talent as a businessman.”¹⁵

The Nakai family business that had been growing steadily up to this point took a darker turn during the reign of Mitsumoto, the fourth Genzaemon. At the time, the Tokugawa Shogunate was nearing its end, and as the upheaval in the shogunate system intensified the feudal domains across Japan began increasing the amount of gold and silver taxes levied on Nakai’s outlets. As part of an effort to mitigate such payments, Mitsumoto closed the Minato, Soma, and Rikuzen-Ishinomaki branches, and downsized the Nagoya, Uzen-Tendo, and Osaka branches, to concentrate on the Sendai and Kyoto stores.

During the time of Mitsuyasu, the fifth generation Genzaemon, the Nakais suffered a great deal of damage because the new Meiji government refused to repay the loan the family provided to the Sendai clan. The Sendai store was eventually closed around 1889–1890 (Meiji 22–23) so that only the Kyoto store to remain with the sixth generation Genzaemon, Mitsutada. Although the family opened the Kobe store in 1934 (Showa 9), all of the Nakais’ outlets eventually closed by 1942 (Showa 17).

¹² *Ibid.* p. 187.

¹³ Genzaburo-Naotake, the first son of Mitsutake Nakai, died young.

¹⁴ *Ibid.*, Mizuhara, M. (1978), p. 189.

¹⁵ *Ibid.*, p. 190.

Epoch-Making Nature of the Nakai Management Style

The history of the Nakai family's fortune clearly shows that the first patriarch, Mitsutake, was outstanding in terms of the innovative practices he introduced to business management. His innovation was passed down to the second and third generations, Mitsumasa and Mitsuhiro respectively.

What was the essence of the Nakais' innovative practices that spanned the three generations? Their speedy response to greater business opportunities brought about by the nationwide development of a market economy, and the shift from peddling to store-based businesses through the establishment of the new business model, "sanbutsu mawashi" (goods circulation).

However, in order to successfully manage multiple stores simultaneously, the Nakais had to raise a large amount of capital. They also had to devise a system to efficiently oversee each store. In his study of the Nakai family's approach to these challenges, Takehisa Yamada explains as follows (based on Tsuneharu Egashira's research)¹⁶:

Omi merchants in the early modern period (...) expanded their peddling business to rural areas in the Tohoku and Kanto regions, and set up stores in various places. To give an example of a highly successful family, the Nakai Genzaemon household in Hino, Omi, started a compound medicine business in the Kanto region in 1734 (Kyoho 19), shifted from peddling to a store-based business, and expanded their geographical reach from Ou to Kyushu. The family set up more than 20 stores nationwide, engaging in various types of business, establishing joint ventures, managing stores as joint organizations with local merchants, and setting up branches with extended families. At each of these stores, accounting books with double entry structure were used, and the business steadily expanded under the joint ventures. In the Tohoku region, the Otawara store and Sendai store supervised multiple branches in a form akin to a joint-stock company with local merchants.¹⁷

In order to raise the necessary funds for multiple new stores and also oversee each of these stores, the Nakai family adopted the joint venture style, enlisting others to contribute funds. Mizuhara classifies the Nakais' joint ventures into the following four types:

1. Cases in which the Nakai family served as the investor with managerial functions, and other investors only contributed money and were equivalent to unlimited liability, equity investors (Sendai, Fushimi, and Ushirono branches).
2. The Nakai family formally served as the investor without any managerial functions, but in reality the Nakais were in control of accounting audits and business decision-making. The day-to-day operations (manufacturing-related) were taken care of either by a local investor with managerial functions or by an operator

¹⁶Egashira, T. (1965). *Omi shonin Nakaike no kenkyu (Studies of the Omi merchants, the Nakai family)*. Tokyo: Yuzankaku, Inc.

¹⁷Yamada, T. (2017). *Shonin to shogyo soshiki (Merchants and commercial organizations)*. In M. Hirota, T. Yamada, T. Kiyama, T. Nagahiro, & R. Fujioka (Eds.). *Nihon shogyoshi: Shogyo ryutsu no hatten purosese wo toraeru (Japanese commercial history: Understanding the development process of commerce and distribution)* (p. 41). Tokyo: Yuhikaku Publishing Co., Ltd.

without an ownership stake. In addition, sometimes 2–3 additional investors contributed funds without assuming managerial roles (Tendo, and Onomichi branches).

3. A joint venture between one investor with managerial functions (local operator), and the Nakai family in which the family did not assume any formal managerial functions [...] but reserved the right to make decisions. (Otagawa, Koizumi [Otagawa store's branch], Oshitate, Kitsuki, Hinosada [Sendai store's branch], Hinoman, and Hinogin branches).
4. A joint venture between the Nakai family and their manager. The Nakai family served as the investor with managerial functions, and the manager would only provide labor (Soma branch).

Mizuhara paid close attention to the first and second types in which the Nakais “solicited investment from others who would only contribute money without assuming managerial functions,” adding that “these resembled unlimited liability companies, but they are worthy of our closer attention as pioneering cases of *Gomei Kaisha*, in which managers have unlimited liability and other investors have limited liability.”¹⁸ By comparison, in the case of joint ventures created by big city merchants such as Konoike and Mitsui, it was often family members who contributed funds. Mizuhara notes: “Rather than collecting funds from others, a considerable emphasis was put on the prevention of asset dispersal.”¹⁹

Thus, the Nakais gave birth to a new business model called “sanbutsu mawashi,” pioneering new forms of joint capitalization through store openings across Japan. This is yet another example of breakthrough innovation achieved during the Edo period.

The Limits of the Nakai Family and Their Background

Despite the innovative business practices introduced by the three first generations of Nakai Genzaemon, the Nakai family was at the mercy of the political turbulence during the Edo-Meiji Restoration period and failed to grow after the Meiji era.

Mizuhara explains:

One reason the Nakai family, unlike the Mitsui family, failed to make great strides after the Meiji period, might be due to their continuing relationship with the Sendai clan, despite the family precepts against joining forces with feudal lords, a relationship that led to significant losses. But more importantly, the Nakais had allowed family assets to be divided among heirs during the transfer of power from the first to the second generation. Such dispersal of family assets had always been forbidden in the Mitsuis, Konoikes, and other prominent merchant families. The Nakais also suffered from a lack of human capital.²⁰

¹⁸ *Op. cit.*, Mizuhara, M. (1978), pp. 200–201.

¹⁹ *Ibid.* p. 202.

²⁰ *Ibid.* p. 221.

As mentioned, the family's relations with the Sendai clan dealt a heavy blow to the Nakais. When the transition from the first generation to the second took place, what was the form of "dispersion of property"? Mizuhara describes it thus:

In 1797 (Kansei 9), Mitsutake distributed his estate, assigning the main house and Sendai and Soma branches (total capital of 31,000 ryo) to Mitsumasa; Kyoto and Onomichi branches (total capital of 23,373 ryo) to his third son, Seijiemon Takenari; the Otawara and Koizumi branches (total capital of about 10,000 ryo) to Mitsutomo, the son-in-law of Riyo, the bereaved daughter of his eldest son, Genjiro, for Mitsutomo to carry on the name Genzaburo. Furthermore, Ichizaemon, the husband of Mitsutake's third daughter Fumi and adopted son of Mitsutake's older sister, was not given a branch, but was given gold (about 5,815 ryo), and thus the Seijiemon, Genzaburo, and Ichizaemon families became separate branches.²¹

Such "dispersal of family assets" may have been inevitable for the family running multiple stores nationwide through a "goods circulation" business. The Nakais, the Konoikes, and the Mitsuis all adopted a joint-venture style of business, but this style led to contrasting results: for the Nakais, it contributed to the dispersion of family assets, while it worked for the Konoikes and the Mitsuis to prevent such an outcome.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



²¹ *Ibid.* p. 188.

Discussion Point 1: Early Modern or Pre-Modern?



Abstract This section addresses the question of whether the Edo period was pre-modern or actually the start of Japan's modern economic era. Its conclusion: overall, the former is more accurate.

The “Novelties” of the Edo Period

In the first half of Part I, we focused on the Edo period and examined three cases: (1) Zen'emom Konoike, who introduced a series of innovative practices on a national scale; (2) Takatoshi Mitsui, who inaugurated retail innovation in response to new business opportunities; and (3) Genzaemon Nakai, who seized business opportunities and was active in the national market despite being a local merchant. These merchants were the driving force behind significant economic growth, one of the hallmarks of the Edo period (especially the seventeenth century).

Their innovative activities were made possible by the “novelties” of the Edo period, marked especially by the development of a market economy. Among the scholars who have focused on this point and made bold arguments is Matao Miyamoto.

Matao Miyamoto's “Edo Period = Early Modern” Theory

Miyamoto focuses on the “novelties” of the Edo period and views Edo as belonging to the early modern period.¹ This is an influential argument that calls for a fundamental shift in the conventional view of the Edo period as a feudalistic and pre-modern period, distinct from the modern era.

Miyamoto raises the following six points as the basis for his “Edo Period = Early Modern” theory:

¹The following summary of the Early Modern Theory is from *op. cit.*, Miyamoto, M. (2007), pp. 1–5.

1. The authoritative power of archaic forces such as the imperial court, aristocrats, and temples and shrines had decisively receded. This meant the collapse of the long-lasting, Ritsuryo system of administration and the manor system, as well as the decline of religious power.
2. Widening geographical reach of economic activities: The establishment of intra- and inter-fief markets facilitated the formation of a Japan-wide “national economy” thriving locally and nationally.
3. Major transformation of the environment such as improvements in civil engineering and irrigation technology, as well as the introduction of new rice varieties encouraging farmers to permanently settle in fixed areas while commercial and industrial workers settled in cities, contributing to the growth of urban areas.
4. The class system of “samurais, farmers, artisans, and merchants” encouraged the division of labor. This, in turn, led to the reduction of subsistence-farming and the growth of commodity transactions and monetary economy.
5. Japan’s isolationist policy reflected its desire to minimize the influence of China and of the West. It enabled Japan to remain basically free from the Sino-centric “Hua–Yi” [“China or barbarians” perspective] order that had existed since ancient times, and also from the growing encroachment into Asia of European powers that had intensified since the mid-sixteenth century.
6. The standardization of a national currency, virtually for the first time in Japanese history. The Edo period also saw the standardization of weights and measures, as well as the development of new transportation methods.

The above is an overview of Miyamoto’s “Edo Period = Early Modern” theory. The overall argument is solid, and his positive evaluation of the “samurai, farmer, artisan, and merchant” system and of Japan’s isolationist policy is quite refreshing.

Prerequisites for Japanese Economy’s Early Takeoff

Nevertheless, I consider the Edo period to be pre-modern, and not belonging to the modern era, due to the existence of the class system of “samurai, farmers, artisans, and merchants.” The presence or absence of a class system is a decisive benchmark distinguishing pre-modern from modern. Nevertheless, Japan in the Edo period undeniably featured “novelties” that were distinct from the conventional feudal period. Thus, the Edo period was a time when feudalism and the market economy had come to coexist.

In the [Introduction](#), the first of the three questions pertaining to Japanese business history was: “What enabled Japan’s economy to take off so early on a growth path?” I attribute the early takeoff to the presence of a feudal society featuring “novelties,” that served as an important prerequisite.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Overview 2: From Port Opening to Post Russo-Japanese War Period



Abstract This section surveys the revolutionary consequences of Japan's opening to the world from the mid-nineteenth century until early in the twentieth century, as the country's economy started on its capitalist path of development. It focuses on four cases, featuring six innovative entrepreneurs who were active during this period.

Japan's Encounter with Global Capitalism

In the second half of Part I, we will focus on four cases, featuring six innovative entrepreneurs active during the final days of the Edo period through the post Russo-Japanese War period. Assessed individually, their innovations were "incremental" in essence. However, the unique system resulting from the combination of their innovations allowed Japan to industrialize in the wake of Europe and the United States, becoming the first to accomplish this among late developer nations. Thus the entrepreneurs to be discussed in the second half of Part I could also be viewed collectively as breakthrough innovators of global historical significance.

Here we first turn back the clock to the time of the port opening at the end of the Edo period, which took place about 15 years before the Meiji Restoration. From there, we will reexamine the modernization and industrialization process in Japan.

Industrialization in a broad sense can begin through handicrafts that precede mechanization, and the Edo period in Japan was no exception. In the mid-nineteenth century, small-scale handicraft operations by individuals partnering with merchants were fairly common, especially in the textile industry. In addition, some factory-style handicraft operations appeared. Such operations, however, essentially represented proto-industrialization, a concept proposed by Franklin Mendels and Pierre Deyon based on their study of eighteenth century Flanders. This style of handicraft operation can be labeled "pre-industrial industrialization"; or "Genki teki

Kogyo ka” in Japanese.¹ In Japan, the start of full-scale industrialization came after the country’s encounter with global capitalism through the port opening at the end of the Edo period.

Following a series of events—the arrival of U.S. Commodore Matthew C. Perry in 1853 (Kaei 6), the signing in 1854 (Ansei 1) of the Treaty of Amity and Friendship between Japan and the U.S., and the 1858 Treaty of Amity and Commerce between Japan and the U.S.—the Tokugawa Shogunate was forced to abandon its isolationist policy and open Japan’s ports. This direct encounter with the world’s capitalist powers, including the U.K., which was already establishing itself as the “manufacturing house of the world,” overwhelmed Japan with the obvious disparity in economic and military power between herself and them. Such a disparity was evident in Japan’s being forced to accept the infringement of its judicial sovereignty (i.e., acceptance of unilateral consular jurisdiction) and losing autonomy over tariffs (i.e., acceptance of a consensus-based tariff system) in the treaties of amity and commerce that Japan signed with others. Of these, the treaties of commerce “pegged Japan to the world’s few countries that were practicing free trade at the time and deprived Japan of the freedom to adopt protective tariffs as an instrument of its industrial policy.”² It was not until the signing in 1911 (Meiji 44) of the new Japan-U.S. Commerce and Navigation Treaty did Japan regained most of its autonomy over tariffs.

The greatest political impact of the port openings at the end of the Edo period was as a catalyst for the movement to promote the Emperor as leader of the nation and repel foreign powers (Sonno-joi movement). This uprising ultimately led to the end of the Tokugawa shogunate and the demise of feudal Japan. There are two opposing theories on the Meiji Restoration of 1868. One claims that the Restoration was comparable to the civil revolution in Europe that gave birth to the modern nation state; the other maintains that it was only a form of an absolutist revolution leading to the creation of a semi-feudal imperial system. I take the former view, that the Meiji Restoration guaranteed various reforms indispensable for economic activity—freedom of contract, business, relocation, and occupation. It also brought about the land tax reform of 1873 and the subsequent abolition of stipend payments for aristocrats (Chichiroku Shobun) which helped establish modern land ownership.

¹For details of proto-industrialization, see Saito, O. (2013). *Purotokogyoka no jidai: Seiyo to Nihon no hikaku-shi (The era of protoindustrialization: The comparative history of Western Europe and Japan)*. Tokyo: Iwanami Shoten Publishers.

²Miwa, R. (1993). *Gaisetsu Nihon keizaishi: Kingendai (An outline of Japanese modern economic history)* (p. 23). Tokyo: University of Tokyo Press.

Accumulation of Capital and Labor

The port openings at the end of the Edo period had a profound economic impact on Japan, accelerating what the economists call primitive accumulation, the build-up of two essential components of capitalism: capitals and wage labor. After the Meiji Restoration, this primitive accumulation continued despite turmoil triggered by inflation and deflation under Shigenobu Okuma and Masayoshi Matsukata, successive secretaries of finance. Accumulation reached its final phase when the worsening of economic disparity among farmers led to the dissolution of the peasantry. Okuma and Matsukata were appointed to the post of Finance Minister in 1873 and 1881, respectively. Inflation became a problem under Okuma, while deflation characterized Matsukata's term. The 1882 establishment of the Bank of Japan was a symbolized the completion of primitive capital accumulation.

Around 1880, as primitive accumulation was entering its final phase, a series of major corporations were established in the form of joint-stock companies. Tokio Marine Insurance was established in 1879, Nippon Railway in 1881, and Osaka Cotton Spinning in 1882. As the success of these pioneering corporations boosted confidence in the joint-stock company system, Japan saw an entrepreneurial boom during a 4-year period (1886–1889), with newly emerging companies dealing in insurance, railroad, textile spinning, and others areas, all riding the wave. Although this boom was halted by the Depression of 1890, there is no doubt that industrialization had clearly begun to take off in Japan.

Industrial Revolution in Japan

The Depression of 1890 that followed the entrepreneurial boom meant that capitalist production had begun in earnest in Japan. If an industrial revolution is synonymous with the establishment of capitalism in a given nation, then Japan's own industrial revolution started in the 1880s, just over a century after Britain.

When a late developer like Japan experiences its own industrial revolution, it can access state-of-the-art technologies already developed in industrialized nations, but it must also fight pressure from earlier developers to import their products while its own industrialization is still underway. Although the cheap labor costs of a late developer mean that labor-intensive, light industries can remain relatively resistant to import pressures, that's not the case for capital-intensive heavy industries face substantial pressure. Therefore, to complete an industrial revolution to be completed in a late developer, must establish machine-based production in light industries, such as the textile industry. In addition, it should either: transform light industry into an export industry to guarantee stable imports of heavy machinery: or develop its own domestic production of heavy industry.

In terms of machine-based light industry, Osaka Cotton Spinning's opening of a large factory equipped with 10,500 spindles in 1883 was a milestone for Japan. In

resisting import pressure, it was important that cotton yarn exports surpassed imports in 1897, and that raw silk exports surged during 1900–1905. And as for development of heavy industry, the blast furnaces at the government-run Yawata Iron & Steel Co., Ltd. became fully operational in 1904, and by the end of that decade, Japan became self-sufficient in the production of ships and weapons.

Thus, Japan's industrial revolution was completed by the mid-to-late-1900s. In the process, Japan experienced two wars: the Sino-Japanese War of 1894–1895 and the Russo-Japanese War of 1904–1905. Following these wars, the scale of Japan's finances grew drastically, with funds distributed to many sectors: (1) As part of the "Post-Russo-Japanese War Management," laws were enacted for arms expansion, including the Navigation Encouragement Law and the Shipbuilding Encouragement Law (both in 1896); (2) Establishment of a state-run ironworks (promulgation of the Ironworks Governmental Regulations in 1896, with Yawata chosen as its location in 1897); (3) Establishment of special banks (1897 for Nippon Kangyo Bank, 1898–1900 for Prefectural Agricultural and Industrial Bank, 1900 for Hokkaido Takushoku Bank, and 1902 for the Industrial Bank of Japan); (4) Implementation of policies regarding the expansion of telegraph and telephone operations; (5) Also as part of the "Post-Russo-Japanese War Management," expansion of armaments, nationalization of railroads, and establishment of the South Manchurian Railway (all in 1906), were carried out; (6) Measures to expand state-owned steel mills and telegraph and telephone operations were introduced. During this period, the gold standard was established in 1897, backed by the large reparations obtained from the Qing Dynasty. In addition, overseas colony operations grew, through the occupation of Taiwan in 1895 and of South Sakhalin in 1905, and through the annexation of Korea in 1910.

Three Types of Businessmen

The many businessmen were active during Japan's industrialization process can be divided into three main types:

1. Salaried managers, such as Hikojiro Nakamigawa.
2. Owner-managers, represented by Yataro Iwasaki, Yanosuke Iwasaki, Zenjiro Yasuda and Soichiro Asano.
3. Investor-managers, such as Eiichi Shibusawa.

In the second half of Part I, we examine the activities of these businessmen individually and evaluate their performance from the standpoint of innovation.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 4 Hikojiro Nakamigawa: Zaibatsu Reform by Salaried Managers



Abstract This chapter introduces Hikojiro Nakamigawa, a salaried manager who became director of the Mitsui Bank in the Meiji period engaging in Zaibatsu reform, including modernization, streamlining, and recovery of non-performing loans.

Characteristics of Japanese Zaibatsu

The first case study is of Hikojiro Nakamigawa¹ who made his mark as a salaried manager. A salaried manager is a person who has been promoted to a top management post through specialized knowledge acquired at work or at higher academic institutions. They are a different breed of businessperson from owner-managers who arrived at the top through ownership of a company's assets.

Notably, prior to World War II, zaibatsu-affiliated firms in Japan had far more salaried managers than did non-zaibatsu-affiliated firms. Hidemasa Morikawa, who compiled a detailed list of "Salaried managers in 28 of the 75 largest companies" as of 1905, concluded that "salaried managers were more prevalent in large zaibatsu-affiliated companies."²

Considering that zaibatsu are family businesses, it may be surprising that salaried managers have made significant inroads in such companies, but the role of such managers is an important finding of Japanese business history researchers.

Japanese business historians have been particularly successful in their analysis of the zaibatsu. Historian Hiroaki Yamazaki defines zaibatsu as a diversified business form headed by a family and possessing dominant companies in multiple sectors of a

¹For details of Hikojiro Nakamigawa in Mitsui Bank, see Kasuya, M. (2002). *Gosho no Meiji: Mitsuike no kogyo saihen katei no bunseki (Meiji of wealthy merchants: Analysis of the process of Mitsui family's business reorganization)*. Nagoya: Nagoya University Press.

²See Morikawa, H. (1981). *Nihon keieishi (Japanese Business History)* (pp. 77–81). Tokyo: Nikkei Publishing Inc.

core industry.³ Although zaibatsu are also found in other countries, Japanese researchers have identified some unique features of those in Japan:⁴

1. Zaibatsu were created through reforms that transformed them into modern business entities. If they had remained political merchants closely aligned with the powers of the time, Mitsui (effectively commencing operations in 1673) and Mitsubishi (effectively commencing operations in 1873) would be unable to sustain long-term growth. The crisis that engulfed the Mitsubishi shipping company, which lost government support due to the political upheaval of 1881, and the financial difficulties of the Mitsui Bank in the early 1890s, caused by increasing in bad loans to politicians and others, clearly demonstrated the limits of political collusion. Mitsubishi overcame this crisis through a diversification strategy (withdrawal from the shipping business and entry into shipbuilding, banking, mining, warehousing, and real estate businesses) under Yanosuke Iwasaki, the second head of Mitsubishi. Similarly, Mitsui Bank emerged from crisis through a series of reforms (such as liquidation of non-performing loans, fostering of diverse industries through investments and loans, and hiring many salaried managers) that were promoted by Hikojiro Nakamigawa, who was appointed as the bank's director in 1891. Through these reforms, Mitsui and Mitsubishi transformed themselves from old-fashioned political merchants to modern business entities, setting themselves up for long-term growth.
2. Zaibatsu showed "a strong inclination to industrialization,"⁵ and "played a leadership role (i.e., risk takers' role) in many industries, except in a few cases such as cotton spinning, electric power generation, and their related industries."⁶ Hikojiro Nakamigawa, who rose to the top at the Mitsui Zaibatsu, pursued the industrialization path. When presented with greater business opportunities in the period before and after World War I, Mitsui Zaibatsu became a Konzern in German by establishing holding companies, converting directly-owned companies into joint stock companies, and forming a network of subsidiaries.⁷

³According to a speech made by Hiroaki Yamasaki in the 15th Business History Society of Japan in 1979. See Morikawa, H. & Yuzawa, T. (1980). Dai-jugokai taikai toitsurondai "taishoki ni okeru chukibo zaibatsu no seicho to genkai" togihokoku (*Integrated subject of the 15th annual meeting: Discussion report 'The growth and limit of mid-level zaibatsu in the Taisho period'*). *Japan Business History Review*, 15(1).

⁴Examples of business history research on leading Japanese zaibatsu include Yasuoka, S. (1970). *Zaibatsu keisei-shi no kenyu (Studies of the history of zaibatsu formation)*. Kyoto: Minervashobo; Morikawa, H. (1980). *Zaibatsu no keieishi-teki kenkyu (Business history studies of zaibatsu)*. Tokyo: Toyo Keizai Inc.; The Center for Business and Industrial Research, Hosei University, J. Hashimoto, & Takeda H. (1992), *Nihon keizai no hatten to kigyoshudan (The development of the Japanese economy and corporate groups)*. Tokyo: University of Tokyo Press.

⁵*Op. cit.*, Morikawa, H. (1980), p. 299.

⁶Kikkawa, T. (1996). *Nihon no kigyoshudan: zaibatsu tonozoku to danzetsu (Japanese corporate groups: The continuity and discontinuity with zaibatsu)* (p. 230). Tokyo: Yuhikaku Publishing Co., Ltd.

⁷"Konzern" refers to a form of monopolistic organization trying to control different industry fields with one integrated fund formed by a holding company owning the stock of two or more enterprises.

Differing patterns of development can be seen in the zaibatsu shift to industrial Konzern-style entities: (a) Yasuda and Nomura, the “financial zaibatsu,” were reluctant to diversify their business; (b) By 1908, Mitsui, Mitsubishi, and Sumitomo, which had already diversified to become “general zaibatsu,” entered the heavy and chemical industries, the few major industries still untouched by zaibatsu; (c) The so-called “mining zaibatsu” of Furukawa and Kuhara, the “manufacturing zaibatsu” of Asano, Kawasaki-Matsukata, and the “logistics zaibatsu” of Okura and Suzuki, that had thus far focused on specific industries, actively promoted diversification and managed to form a broad conglomerate.⁸ Of these patterns, most of the diversification drive mentioned in (c) failed during the economic recession after the 1920 depression. Still, it is clear that the Japanese zaibatsu that had become concerns possessed a “strong inclination for industrialization.”

3. In Japan, zaibatsu-affiliated companies had far more salaried managers than did non-zaibatsu-affiliated companies. At Mitsui, Hikojiro Nakamigawa was one of these managers. A graduate of Keio Gijuku (predecessor of Keio University), he brought in many others from Keio to join the Mitsui family businesses. These Keio graduates who joined Mitsui became some of the leading salaried managers in Japan prior to World War II. The same was true of Mitsubishi, but notable at Mitsubishi was the fact that its owner-managers, Yataro and Yanosuke Iwasaki, actively hired salaried managers.

The reason for the relative prominence of salaried managers in zaibatsu-affiliated firms was that “in Japanese zaibatsu, restraints on [family] ownership were doubly effective—first in the relationship between the owner family and [zaibatsu’s] central company, and second in the relationship between the central company and its direct affiliates.”⁹ In the former, the fact that family ownership was under a joint ownership system that served as a restraint. As we saw earlier in Case 2, joint ownership’s nature “did not permit the division of family property, and the freedom to dispose of assets, which was an essential component of private ownership, was nonexistent.”¹⁰ Thus, the system of joint ownership functioned to limit ownership by the members and relatives of the founding family. In the latter, central company and affiliates, the central company served as a stable shareholder of its affiliates. The ratio of salaried managers on the boards of directors of all major Japanese companies, including those not affiliated with zaibatsu, steadily rose by the 1930s.

⁸See Kikkawa, T. (2016). Sangyo keieishi shirūzu 8: Zaibatsu to kigyō gurupu (*Industrial business history series 8: Zaibatsu and corporate groups*) (pp. 35–39). Tokyo: Japan Business History Institute.

⁹*Ibid.*, Kikkawa, T. (1996), p. 231.

¹⁰Takeda, H. (1992). Takakuteki jigyobumon no teichaku to kontserun soshiki no seibi (*The settlement of diversified business sectors and the development of Konzern organizations*). In *op. cit.*, The Center for Business and Industrial Research, Hosei University, J. Hashimoto, and Takeda, H. (Eds.) (1992) *The development of the Japanese economy and corporate groups*. (p. 78).

Through a series of business history studies, it became clear that Japanese zaibatsu had the following characteristics: (a) They shifted away from political power, then modernized and streamlined their management; (b) They became leaders in many industries with a strong drive towards industrialization; and (c) They actively recruited and appointed salaried managers. The third point was the most noteworthy of these, showing that while the zaibatsu bore the characteristics of a family business, they also eagerly appointed salaried managers. The salaried managers who were given an active role within zaibatsu played a central role in business modernization and industrialization. These findings contain useful implications for late developer nations in designing their own industrialization, and should be appreciated as an important international contribution by Japan's business history researchers.

The three characteristics mentioned above are highly relevant to the reforms at Mitsui carried out by Hikojiro Nakamigawa. Nakamigawa can be seen as a personification of the move from political power to industrialization and use of salaried managers. We will briefly review Nakamigawa's biography leading up to his joining Mitsui and then analyze his record in the order of (a), (c), and (b).

Brief Biography of Hikojiro Nakamigawa

Hikojiro Nakamigawa was born in 1854 (Ansei 1) in what has become today's Nakatsu City, Oita Prefecture. Hikojiro's mother, En, was the daughter of Hyakusuke Fukuzawa, an officer of the Nakatsu Domain, and also the sister of Keio University founder Yukichi Fukuzawa. In short, Hikojiro Nakamigawa was a nephew of Yukichi Fukuzawa.

Admiring Fukuzawa, Nakamigawa went to Tokyo and studied at Keio Gijuku in Tokyo. He also studied in Britain from 1874 (Meiji 7) to 1877. Following his return, Nakamigawa worked for the Ministry of Industry and the Ministry of Foreign Affairs of the Meiji government under Prime Minister Kaoru Inoue. Afterward, Nakamigawa served as president of Jiji Shimpo and of Sanyo Railway (SR). Jiji Shimpo, a daily newspaper founded by Yukichi Fukuzawa, was one of Japan's "Top 5 Newspapers" before World War II, but stopped publication in 1936 (Showa 11). SR, the railroad company that built the Sanyo Main Line among others, is still operated by West Japan Railway Company (JR West) today. Prior to the nationalization of the railroads in 1906 (Meiji 39), the rail lines were privately owned and privately operated.

Nakamigawa stepped down as president of SR in 1891 and became a director of Mitsui Bank on the recommendation of Kaoru Inoue. Under the leadership of Rizaemon Minomura, Mitsui survived the turmoil at the end of the Tokugawa Shogunate and the early days of the Meiji Restoration, but after Minomura's death in 1877, lack of leadership began to strain the company. The accumulation of bad debts resulting from Minomura's pro-government policies pushed Mitsui Bank into

a crisis, symbolized by a bank run at the Kyoto branch in 1891. To overcome the crisis, Mitsui Bank chose to hire a leader from the outside.

Describing Nakamigawa's entry into Mitsui, historian Makoto Kasuya highlights the important role of Takashi Masuda, the founder of Mitsui & Co. The decision to hire Nakamigawa reflected the intention of the Mitsui family's wish to display leadership to the employees.¹¹ As Kasuya notes, "When the family assumed leadership over employees, it needed a competent salaried manager who could be entrusted by the family to competently carry out management duties. This is where the family and Inoue's expectations for Nakamigawa aligned."¹²

In 1892, a year after joining Mitsui Bank, Nakamigawa became its deputy general manager and undertook a series of managerial reforms, including collecting bad debts, appointing salaried managers, and promoting industrialization. However, Nakamigawa gradually became isolated within Mitsui as the industrialization division continued to generate losses due to the recession that followed the Sino-Japanese War (1894–1895), among other causes. Nakamigawa became ill and died in 1901, before reaching the age of 50.

Recovery of Non-performing Loans

Beyond Nakamigawa's management modernization and streamlining (point 1), a noteworthy move was clearing bad debts accrued by Mitsui Bank that stemmed from its pro-government policy. One well-known example was pursuing the debt owed by the Higashi Honganji temple.

According to Makoto Kasuya's work titled "Gosho no Meiji (*Meiji of wealthy merchants*)," as of June 1891, Mitsui Bank's outstanding loans to the Higashi Hongwanji temple totaled 990,300 yen, second only to the largest borrower Miike Coal Mine (outstanding loans: 1,076,749 yen). Loans to Higashi Honganji temple were originally initiated through the mediation of Masayoshi Matsukata (see *ibid.*, pp. 52–53).

Mitsui Bank managed to collect the non-performing loan after Nakamigawa joined the bank. According to Kasuya in "Gosho no Meiji" that, "Although there is no historical record of the repayment of the second largest loan to Higashi Honganji, it is safe to assume that the full amount was collected since the complete repayment was expected as of April 1892 and there was no evidence of write-offs or collateral appropriation. Because 'real [market] value' as of June 1891 was only about half, it means that thanks to Nakamigawa's efforts, net assets increased and liquidity improved."¹³

¹¹ *Op. cit.*, Kasuya, M. (2002), pp. 57–64.

¹² *Ibid.*, p. 64.

¹³ According to *op. cit.*, Kasuya, M. (2002): The disposal of non-performing loans for Michihiro Nakamura and Hisashige Tanaka was discussed as "an example of the increment of the assets"

But Kasuya also states in “Gosho no Meiji” that “Nakamigawa’s clean-up of non-performing loans, like those of Higashi Honganji, cannot be entirely attributed to the series of negotiations that took place after he joined the bank. Various forms of debt clearance efforts were made before Nakamigawa’s arrival, such as collateral appropriations, the selling of the 33rd National Bank even before any substantial surge of ‘real [market] value’, and the complete write-off of ‘loans in arrears.’”¹⁴ Thus, Kasuya cautions against overestimating the loan recovery effort by Nakamigawa.

Appointment of Salaried Managers

Nakamigawa aggressively hired and appointed salaried managers as described above. Hidemasa Morikawa points out that Mitsui & Co., controlled by Mitsui family members at the time, actively recruited university graduates even before Nakamigawa’s arrival.¹⁵ However, he also points out:

Mitsui Bank, which was the only business directly run by the Mitsui, was slow to hire university graduates. Hikojiro Nakamigawa, who became a director of the Bank in Meiji 24 [1891] was the first to hire many Keio Gijuku graduates from a variety of professional fields as he promoted bank reform and industrialization from Meiji 25 onward.¹⁶

Table 1 lists the Keio Gijuku graduates whom Nakamigawa recruited to join Mitsui Bank.¹⁷ Seishi Nakamura, who compiled the list, noted of Nakamigawa that “he himself was a pioneering salaried manager of zaibatsu, and the highly educated talents recruited during his leadership later became key personnel not only within Mitsui but also in respective fields of industry.” Nakamura continued: “Nakamigawa’s role in the development of Mitsui was significant, particularly in breaking away from its pro-government inclination and in the modernization of human resources.”¹⁸ In the Mitsui zaibatsu, where salaried managers were promoted in large numbers, what was the relationship between the Mitsui family and these managers? Hidemasa Morikawa suggests, “While the official view was that the bosses of the Mitsui family . . . should assume top management posts and lead the

‘practical value’ made by Nakamigawa.” (see p. 65). Note that Michihiro Nakamura was the fourth and Hisashige Tanaka was the tenth largest recipient of loans according to the records for outstanding loans at the main head office of Mitsui Bank as of June in 1891 (see *ibid.*, p. 52).

¹⁴As of June 1891, the 33rd National Bank was the third largest recipient of loans according to the records for outstanding loans from the main head office of Mitsui Bank (see: *op. cit.*, Kasuya, M. (2002), p. 52).

¹⁵*Op. cit.*, Morikawa, H. (1981), p. 39.

¹⁶*Ibid.*, p. 40.

¹⁷Nakamura, S. (1999). Nakamigawa Hikojiro no Mitsui kaikaku (*Hikojiro Nakamigawa’s reform of Mitsui*). In M. Udagawa, & S. Nakamura (Eds.), *Materiaru Nihon keieishi (Material Japanese business history)* (p. 27). Tokyo: Yuhikaku Publishing Co., Ltd.

¹⁸*Ibid.*, p. 26.

Table 1 Keio Gijuku graduates whom Hikojiro Nakamigawa recruited to join Mitsui Bank

Name	Alma mater	Occupation before joining Mitsui Bank	Year joining the bank	Post-Mitsui career (position held)
Koji Tsuda	Keio Gijuku	Teacher and Newspaper reporter	1892	Tomioka Silk Mill (Director)
Tei Murakami	Keio Gijuku	Newspaper reporter, Sanyo Railway	1892	Kyodo Fire Insurance (Managing Director)
Raita Fujiyama	Keio Gijuku	Member of the prefectural assembly	1892	Dainippon Sugar Co. (President)
Ichizo Kobayashi	Keio Gijuku	Fresh graduate	1892	Hankyu Corporation (President), Toho (President), Minister of Commerce and Industry
Toyoji Wada	Keio Gijuku	NYK Line	1893	Fuji Gas Boseki (President)
Sanji Muto	Keio Gijuku	Advertising agency, Newspaper reporter	1893	Kanegafuchi Spinning (President)
Shogoro Hatano	Keio Gijuku	Diplomat, Newspaper reporter	1894	Mitsui Bank (Director), Toshin Warehouse (Director)
Umeshiro Suzuki	Keio Gijuku	Newspaper reporter	1894	Oji Paper (Senior Managing Director)
Sotaro Yanagi	Keio Gijuku	Newspaper reporter	1894	Mitsui Bank
Seki Yada	Keio Gijuku	Newspaper reporter, Sanyo Railway	1895	Mitsui Bank (Auditor)
Shigeaki Ikeda	Keio Gijuku and Harvard University	Newspaper reporter	1895	Mitsui Bank, Mitsui Gomei, Governor of Bank of Japan, Minister of Finance
Ginjiro Fujiwara	Keio Gijuku	Newspaper reporter	1895	Mitsui & Co., Oji Paper (President), Minister of Commerce and Industry
Satoshi Hiraga	Keio Gijuku	Teacher and government official	1896	Fujimoto Bill Broker Bank, Hankyu Corporation (President)
Osuke Hibi	Keio Gijuku	Store manager	1896	Mitsukoshi (Executive Director)

Mitsui zaibatsu, no one adhered to it. On the other hand, salaried managers were not entirely entrusted with top-level managerial duties, with family members often intervening in the decision-making process.”¹⁹

¹⁹*Op. cit.*, Morikawa, H. (1981), pp. 135–136.

Makoto Kasuya emphasizes the influence of the Mitsui family in appointing Nakamigawa as well as the constraints placed by the family on Nakamigawa's reforms were substantially constrained by the family.²⁰ However, given that the Mitsui family had no choice but to rely on Nakamigawa, a salaried manager, to pursue managerial reforms at Mitsui Bank, and that Nakamigawa's reforms contained innovative elements as highlighted above, I believe his reforms were of historical importance.

The appointment of salaried managers similar to those discussed here was also evident at Mitsubishi, where the two owner-managers, Yataro Iwasaki and Yanosuke Iwasaki, supported their recruitment. Mitsubishi managers will be discussed in Case 5.

Industrialization Effort and Its End

Finally, let us look at how Hikojiro Nakamigawa worked to promote industrialization. Historian Shigeaki Yasuoka explains:

Hikojiro had long held the opinion that the company should contribute to the industrialization of Japan. When the four partnership companies were established in June of Meiji 26 (1893),²¹ the Mitsui Motokata-Mitsui Family Association was formed to oversee these companies. The land that had been owned by each company for non-commercial purposes use was placed under the control of a newly established Estate Department, and the factories owned by each company were placed under the control of a newly established Industrial Department, with Mitsui Motokata managing both departments. Hikojiro then devoted his energies to the development of the Industrial Department.²²

The newly established Industrial Department included the Maebashi Spinning Mill, Oshima Silk Mill, Shinmachi Silk Spinning Mill, Mie Silk Mill, Nagoya Silk Mill, and Tomioka Silk Mill, among others.²³ According to Yasuoka, "In addition, Kanegafuchi Spinning Co., Ltd. had temporarily fallen into financial difficulties during the depression of Meiji 23 [1890]. Nakamigawa became its president and shored up business, and he also sent Raita Fujiyama to Oji Paper Corporation, which was short of funds for expansion, to effectively control the company. In addition, through the liquidation of non-performing loans, he sought to improve and expand the Shibaura Seisakusho (Shibaura Works), which the company had acquired from Hisashige Tanaka."²⁴

²⁰ *Op. cit.*, Kasuya, M. (2002), pp. 73–75.

²¹ "Four Gomei Kaisha" refers to Mitsui companies in the bank, trading, mining, and drapery businesses.

²² Yasuoka, S. (1978). Nakamigawa Hikojiro: Gyo nakaba ni taoreta risoshugi-teki kigyoka (*Hikojiro Nakamigawa: Idealistic entrepreneur who collapsed mid-pursuit*). In S. Yasuoka, Y. Nagasawa, T. Asano, Y. Mishima, & M. Miyamoto (Eds.), *Nihon no kigyoka 1: Meiji hen (Japanese entrepreneurs 1: The Meiji edition)* (p. 27). Tokyo: Yuhikaku Publishing Co., Ltd.

²³ *Ibid.*, p. 27.

²⁴ *Ibid.*, pp. 27–28.

Thus, after joining Mitsui, Nakamigawa aggressively promoted the industrialization of Japan. The effort faced setbacks, however. Owing partly to the recession that followed the Sino-Japanese War, the industrialization drive led to a short-term deterioration in Mitsui's business performance and increased internal criticism of Nakamigawa's reforms. This downturn also apparently contributed to Nakamigawa's death in 1901 at age 47, before he witnessed the fruits of his reforms. Shigeaki Yasuoka calls Nakamigawa "an idealistic entrepreneur who passed away while working toward his goals."²⁵

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



²⁵ *Ibid.*, p. 1.

Case 5 Yataro Iwasaki and Yanosuke Iwasaki: Formation of Zaibatsu by Owner Managers



Abstract This chapter introduces Yataro Iwasaki, the founder of Mitsubishi and a representative example of an owner-manager who promoted industrialization in the Meiji period.

Brief Biography of Yataro Iwasaki

If Hikojiro Nakamigawa of Mitsui is a typical example of a salaried manager, Yataro Iwasaki, the founder of Mitsubishi, can be called a representative example of an owner-manager. A brief biography of Yataro follows.

Yataro Iwasaki was born in 1835 (Tempo 5) in Aki County, Tosa Province (today's Aki City, Kochi Prefecture), as the eldest son of Yajiro Iwasaki, a samurai of low status. Yataro served as a low-ranking official of the Tosa Domain, traveling on business to Nagasaki and taking part in the feudal lord's visits to Edo, but his failure to adhere to rules led to dismissal from both duties. However, Yataro gradually began to demonstrate his business acumen, becoming a prominent figure in the Tosa Domain. His turnaround is attributed to an assignment with the Nagasaki branch of the Tosa Commerce Association (Nagasaki Tosa Shokai), part of Kaiseikan, an organization of the Tosa Domain. Business historian Ryoichi Miwa states:

Yataro's fortune changed for the better when he was assigned to the Nagasaki Tosa Shokai in Keio 3 (1867). Tosa Shokai's business was to sell Tosa's regional products and purchase arms and ships, and Yataro, as chief of the Tosa Shokai, met with foreign merchants and gained valuable experience in business transactions.¹

Thereafter,

¹Miwa, R. (1979). Mitsubishi no hassei to Iwasaki Yanosuke: Mitsubishijokisengaisha (The formation of Mitsubishi and Yanosuke Iwasaki: Mitsubishi Steamship Company). In K. Nakagawa, H. Morikawa, & T. Yui, (Eds.), *Kindai Nihon keieishi no kiso chishiki zohoban (The enlarged edition of basic knowledge on modern Japanese business history)* (p. 30). Tokyo: Yuhikaku Publishing Co., Ltd.

Yataro moved from Nagasaki to the Osaka branch of Tosa Shokai, where he was promoted to junior advisor for the Tosa Domain after he skillfully managed the financing and purchase of steamers. Due to the Meiji government's prohibition on feudal clan-based businesses and also to the austerity policies of the Tosa Domain, plans were made to spin off the Osaka Tosa Shokai and to reorganize it as the Tosa Kaisei Shosha, and in Meiji 3 [1870], it was authorized by the trade authorities as the Tsukumo Shokai.²

The Tsukumo Shokai became completely independent of Tosa Domain with the abolition of the feudal domain system in 1871 and changed its name to the Mitsukawa Shokai in 1872. Yataro reorganized the Mitsukawa Shokai into the Mitsubishi Shokai in 1873, becoming president.

Business historian Yasuaki Nagasawa describes the activities of Mitsubishi Shokai:

Mitsubishi Shokai was a diversified company engaged in shipping, mining, coal mining, camphor manufacturing, and silk spinning. Of these businesses, shipping was the most successful. At the time, the Japanese government ordered Mitsui and other major merchants to establish the Japan Post Steamship Company, with the aim of protecting coastal shipping routes from foreign steamship companies. However, Japan Post Steamship was inefficient and poorly managed, and even lost out to Mitsubishi Shokai, only had a few steamers at the time. So, the government's plan was unlikely to succeed. In addition, the Japan Mail Steamship Company was even involved in a scandal for its refusal to provide military transport for the Japanese invasion of Taiwan in Meiji 7 [1874]. Mitsubishi Shokai, however, boldly agreed to provide military transportation at the request of the government. Consequently the government decided to make Mitsubishi Shokai a protected company and issued the "First Order" in the following year, Meiji 8. The order granted Mitsubishi a total of 31 steamers, including 13 government-owned vessels and 18 steamships owned by the Japan Post Steamship Company, free of charge, as well as an annual subsidy of 250,000 yen for operating expenses. Mitsubishi's shipping division was renamed the Mitsubishi Mail Steamship Company [MMSC] and became the largest monopolistic and privileged shipping company in Japan.³

With the support of the government and led by Yataro Iwasaki, MMSC boldly challenged the foreign steamship companies that dominated the shipping routes around Japan at the time. First, the company pioneered the Shanghai route, challenging and triumphing over the U.S. Pacific Steamship Company. Furthermore, Mitsubishi also triumphed over the British P&O (Peninsular and Oriental) Steam Navigation Company on the Shanghai route and on the Tokyo-Osaka route.

However, Yataro's reliance on government support, left the business on a shaky foundation. Historian Yasuaki Nagasawa notes:

The so-called "political merchant" path of business, in which businesses closely cooperate with the government, can provide a hefty source of income, but it is also very risky. Mitsubishi, too, was unable to enjoy the benefits for long. They ended when the Political Upheaval of Meiji 14 [1881] swept the government, and Shigenobu Okuma, who had been Mitsubishi's backer, was ousted from the government. The Satcho government [consisting

²*Ibid.*, p. 30.

³Nagasawa, Y. (1978). Iwasaki Yanosuke: Mitsubishi kindaika wo ninatta nidaime (*Yanosuke Iwasaki: The second generation who modernized Mitsubishi*). In *op. cit.*, S. Yasuoka, Y. Nagasawa, T. Asano, Y. Mishima, & M. Miyamoto, (Eds.). *Japanese entrepreneurs 1: The Meiji edition* p. 48).

largely of former samurais hailing from feudal domains of Satsuma and Choshu], saw that behind Okuma were Yukichi Fukuzawa in literary circles and Yataro Iwasaki in business fields; they considered the three men an alliance. Thus, in a dramatic turn of events, [the government] began to exert pressure on Mitsubishi.⁴

In 1882, the government turned against Mitsubishi, establishing Kyodo Unyu Kaisha (KUK) as a rival to MMSC with the help of the Mitsuis and Eiichi Shibusawa. Competition between KUK and MMSC was fierce, gradually exhausting both companies and driving them near, and it was becoming likely that both would collapse. In later years, Yataro Iwasaki and Eiichi Shibusawa were often considered to be rivals,⁵ and this fierce competition between the two companies was behind such a view. Due to tough competition, both MMSC and KUK faced a serious financial crises. Yataro Iwasaki fell ill and died in 1885.

Brief Biography of Yanosuke Iwasaki

After Yataro Iwasaki's death, his younger brother, Yanosuke, succeeded him as president of MMSC. Yanosuke Iwasaki was born in 1851 (Kaei 4) in Aki County, Tosa Province, as the second son of Yajiro Iwasaki—16 years after Yataro's birth.

Yanosuke attended Chidokan, a school run by the Tosa Domain, and was taught by Yasutsugu Shigeno at a private school before studying abroad in New York in 1872 (Meiji 5). The following year he returned to Japan and joined his elder brother Yataro's company, by then renamed Mitsubishi Shokai, becoming its vice president. In 1885 Yanosuke became the second head of the Mitsubishis when his older brother passed away.⁶

The historian Yasuaki Nagasawa provides an analysis of Yanosuke's ascent as the second president:

Being the second generation puts the person in a delicate position. The first generation can freely run the business, and both failure and success are of their own making. By contrast, the second generation may increase the inheritance, but is not allowed to shrink it. Business, however, is fraught with risk, and ventures with great profit potential also carry great risk of failure. On the other hand, if the company maintains only safe businesses, profits will be low and the company will not be able to achieve significant growth; worse, the company may decline. In short, a second-generation chief will oscillate between aggressive and passive options when it comes to decision-making. Yanosuke must also have experienced this state of mind, complicating any evaluation of his performance. If we emphasize the passive aspect, Yanosuke was a defender, a man who ran the business inherited from Yataro on

⁴*Ibid.*, p. 49.

⁵For example, Saburo Shiroyama depicted Eiichi Shibusawa in his novel, Shiroyama, S. (1972). *Yuki dodo (Magnificently with dignity)*. Shinchosha Publishing Co., Ltd. (First published in 1971 under the original title of *Kanto [Cold light]*), which adopted a similar viewpoint.

⁶Following Nagasawa Yasuaki's argument, I make a positive evaluation of Yanosuke Iwasaki's role in the diversified businesses of Mitsubishi from 1898 when Mitsubishi Limited Partnership Company was established, to the mid-1900s. See *op. cit.*, Nagasawa, Y. (1978), pp. 74–75.

the track laid down by Yataro. If we emphasize the aggressive aspect, he was a fortifier who developed his own course of business based on the foundation of Yataro's legacy. Actually, he seems to have had both aspects, and cannot be painted in a single color. When evaluating Yanosuke's activities, we must consider both of these aspects.⁷

As the "defender," Yanosuke can evince an ability to end the ruinous competition between MMSC and KUK. There was a fear that if the competition produced a quagmire sinking both companies, foreign steamship companies would step into the vacuum and increase their presence around Japan's coastal waters. Concerned about such a prospect, the Japanese government decided to merge MMSC and KUK, forming a new company. Yanosuke accepted this new policy and dissolved MMSC in September 1886. In October of the following year, the new company Nippon Yusen Kabushiki Kaisha (NYK Line) was established, taking over the operations and assets of the two.

Yanosuke had to make the difficult decision to withdraw Mitsubishi from the shipping business, a decision that might not have been possible if Yataro had been alive. For Yataro, the shipping business was precious. However, thanks to the decisions of Yanosuke, Yataro's heir, Mitsubishi was able to overcome a major crisis. In this sense, Yanosuke was a "defender."

The dissolution of MMSC allowed Mitsubishi to make a fresh start outside of the shipping transportation business and began to aggressively pursue a diversification strategy. Yanosuke's character as a "man who fortified the foundation" was fully demonstrated from then on.

Mitsubishi's entry into the shipbuilding industry was an important milestone in the company's full-fledged diversification of its business. In 1884, Mitsubishi leased the government-run Nagasaki Shipyard. As historian Nagasawa explains: "At that time, Kyodo Unyu and Mitsubishi were in the midst of fierce competition, and it was strange for the government to lease the Nagasaki Shipyard to Mitsubishi, a competitor company. While the circumstances surrounding this are unknown, one theory is that the government was trying to weaken Mitsubishi by handing to Mitsubishi them, the deficit-ridden Nagasaki Shipyard and Machinery Works [NSMW], thereby indirectly helping Kyodo Unyu."

Mitsubishi acquired ownership of the government-run NSMW in 1887 and Yanosuke devoted himself to the restructuring of the shipyard. He invested in a major facility expansion and appointed his trusted subordinate, Heigoro Shoda, as manager of the Nagasaki Shipyard.

Under the leadership of Yanosuke, the NSMW was able to rebuild its business and continued to grow. The construction in 1896 of the 6000-ton class ocean cruiser, the Hitachimaru, was a symbolic event.

Mitsubishi's Nagasaki Shipyard became the foundation of today's Mitsubishi Heavy Industries, with Mitsubishi Electric Corporation and Mitsubishi Motors Industries born as spin-offs from the shipbuilding business. Yanosuke's decision

⁷*Op. cit.*, Nagasawa, Y. (1978), p. 51.

to withdraw from the shipping transport industry and enter the shipbuilding business was the starting point for Mitsubishi group's overall diversification.

Yanosuke's diversification effort did not stop there. In the coal mining and metal mining industries, he greatly expanded the scale of operations that had begun during Yataro's reign. Mitsubishi's coal mining business had essentially begun with the acquisition of the Takashima Coal Mine in 1881, and Yanosuke worked hard to expand the mine's operations. In 1889, he acquired the Shinnyu-Namazuta Coal Mine and expanded into the Chikuho coal field. In the metal mining business, Yanosuke worked to strengthen the management of the Yoshioka Mine that had been shaky during Yataro's time. In addition, Yanosuke also acquired and developed metal mines throughout Japan, including the Osarizawa Mine, Makimine Mine, Omodani Mine, Ikuno Mine, and Arakawa Mine.

A notable examples of Yanosuke's Mitsubishi business diversification was his foray into the real estate business, reportedly begun at the suggestion of Heigoro Shoda who was sent on a business trip to London. This trip culminated in the development of the "1-cho London" office complex in the Marunouchi district of Tokyo—the beginning of today's Mitsubishi Estate Co., Ltd.

Thus, Yanosuke Iwasaki, the second generation, played a leading role in the diversification of the Mitsubishi zaibatsu's businesses. His appellation as the "man who fortified the foundation" is certainly fitting.

In 1893, Yanosuke dissolved Mitsubishi Company and reorganized it as Mitsubishi Goshi Kaisha and handed over the presidency to Hisaya, Yataro's eldest son. After passing the reins to Hisaya, Yanosuke remained involved in Mitsubishi's management and, until his death in 1908, continued to assist his nephew in further diversifying the company's business.⁸

Breaking Away from Political Powers

In the discussion of Hikojiro Nakamigawa and Mitsui in [Case 4](#), three requirements are mentioned for zaibatsu formation: (1) to break away from political powers; (2) to appoint salaried managers; and (3) to promote industrialization. These three requirements also apply to the establishment of the Mitsubishi zaibatsu.

First, it was significant that Yanosuke Iwasaki, who became the second head of the company after the death of Yataro Iwasaki, transferred the business and assets of Postal Steamship Mitsubishi Company, which had been growing rapidly with government backing, to NYK and thereby withdrew from the marine transport business. In this regard, Yasuaki Nagasawa writes:

⁸Following Nagasawa Yasuaki's argument, I make a positive evaluation of Yanosuke Iwasaki's role in the diversified businesses of Mitsubishi from 1898 when Mitsubishi Limited Partnership Company was established, to the mid-1900s. See *op. cit.*, Nagasawa, Y. (1978), pp. 74–75.

When valuing the assets to be transferred, Mitsubishi had revalued its depreciated vessels and other assets, so it had not lost any money. Moreover, many of the steamers transferred were old vessels. NYK sold 16 underperforming vessels during the first seven years after its establishment, necessitating a capital reduction from 11 million yen to 8.8 million yen. In other words, Yanosuke succeeded in selling the shipping business at a higher price. Furthermore, the government guaranteed an 8% annual dividend from NYK, whose largest shareholder was the Iwasaki family. In the end, Yanosuke protected the Iwasaki family's assets while cleaning up its close ties with the government. Compared to Mitsui's departure from being a political merchant that required the disposal of bad debts and other significant expenditures, Yanosuke's actions were comparable to ignoring flowers and just taking the fruit.⁹

By withdrawing from the shipping business, Mitsubishi was able to break away from depending on political powers. This was an essential path for Mitsubishi's rebirth as a modern zaibatsu.

Appointment of Salaried Managers

Mitsubishi also aggressively recruited and actively hired salaried managers. It was notable that Yataro and Yanosuke, the owner-managers, took a proactive stance in their hiring.

Table 1, prepared by historian Hidemasa Morikawa, covers the salaried managers active in the Mitsubishi zaibatsu during the Meiji period.¹⁰ This table includes those who were educated at Terakoya (temple schools) of the Edo period and secondary educational institutions and therefore defines salaried managers rather broadly. Borrowing the term coined by Yukichi Fukuzawa, Morikawa replaces the term salaried managers with "samurai scholars",¹¹ stating that "the active hiring of a large number of 'samurai scholars' ahead of others (Mitsubishi in the Meiji 10s [1877–] and Mitsui in the Meiji 20s [1887–]) and their placement in key policy-making positions, created important conditions for their development as major zaibatsu."¹²

Noteworthy here is that Morikawa dates the active hiring of "samurai scholars" to the Meiji 10s [1877–] for Mitsubishi and the Meiji 20s [1887–] for Mitsui. Thus, Morikawa contends that Mitsubishi was one step ahead of Mitsui in terms of hiring salaried managers. This lead was possible because the two owner managers, Yataro the founder, and Yanosuke his successor, were enthusiastic about hiring salaried managers from the very early days of Mitsubishi.

⁹ *Op. cit.*, Nagasawa, Y. (1978), p. 51.

¹⁰ *Op. cit.*, Morikawa, H. (1980), pp. 17–18.

¹¹ See Fukuzawa, Y. (1959). *Jitsugyoron: Fukuzawa Yukichi zenshu dairakkan (Practical business theory: The complete works of Yukichi Fukuzawa, vol. 6)* (pp. 157–158). Tokyo: Iwanami Shoten Publishers.

¹² *Op. cit.*, Morikawa, H. (1980), p. 20.

Table 1 Salaried managers active in Mitsubishi Zaibatsu during the Meiji Era

Name	Academic background	Job before Mitsubishi	Company, last job in Meiji Era
Heigoro Shoda	Keio Gijuku	Keio Gijuku teacher	Mitsubishi Goshi, Executive
Ryohei Toyokawa	Keio Gijuku		Mitsubishi Goshi, Executive
Kyugo Nanbu	Tokyo Kaisei School, study abroad		Mitsubishi Goshi, Executive Head of Mining Department
Toshimi Takechi	Mitsubishi Commercial School	Civil servant, family business	Tokyo Warehouse, Chairman
Shin Uryu	Edo era secondary education	Railroad dormitory	Mitsubishi Goshi, Head of Sales Department
Seijiro Sho	The University of Tokyo, Law		Mitsubishi Goshi, Head of General Affairs
Rokuro Mizutani	Edo era secondary education, worked in UK	Government-run Nagasaki Shipyard & Machinery Works	Mitsubishi Goshi, Head of Shipbuilding Department
Chinji Harada	The University of Tokyo, Science, Mining	Geological Survey of Japan, Department of Agriculture and Commerce	Mitsubishi Goshi, Head of Mining Department
Kunpei Mimura	Edo era secondary education	119th National Bank	Mitsubishi Goshi, Head of Banking Department
Sadae Eguchi	Higher commercial school	Higher commercial school teacher	Mitsubishi Goshi, Head of Sales Department
Shuichi Kirishima	Imperial University Law Department		Mitsubishi Goshi, Head of Real Estate Department
Kusuyata Kimura	Imperial University Law Department		Mitsubishi Goshi, Head of General Affairs Department
Hidemi Maruta	Military Academy	Chief Engineer of the Navy	Mitsubishi Goshi, Head of Shipbuilding Department
Michinari Suenobu	The University of Tokyo, Law		Tokio Marine, Chairman
Taijiro Yoshikawa	Keio Gijuku	Normal School (Shihan Gakko) Headmaster	Nippon Yusen Kaisha, President
Kosaku Uchida	Temple school		Nippon Yusen Kaisha, Senior Managing Director
Kondo Renpei	Edo era secondary education, Left Daigaku Nanko		Nippon Yusen Kaisha, President
Masabumi Asada	Edo era secondary education		Nippon Yusen Kaisha, Senior Managing Director

(continued)

Table 1 (continued)

Name	Academic background	Job before Mitsubishi	Company, last job in Meiji Era
Shoichi Iwanaga	Keio Gijuku	Interior Ministry official	Nippon Yusen Kaisha, Senior Managing Director
Zenkichi Ogawa	Daigaku Nanko	Education Ministry official	Nippon Yusen Kaisha, Managing Director

Several salaried managers who joined Mitsubishi at that time are not included in Table 1. For example, Eiji Asabuki (later, Chairman of Oji Paper Co., Ltd.), and Tatsuo Yamamoto (later, Governor of the Bank of Japan), who were both Keio Gijuku graduates, as well as Takaaki Kato (later, prime minister) and Hakaru Isono (later, founder of Meidi-ya), both The University of Tokyo graduates.

Promotion of Industrialization

Finally, as noted, the promotion of industrialization constituted the third condition for a zaibatsu's establishment. In the case of Mitsubishi, too, salaried managers played an important role in industrializing.

Heigoro Shoda is a representative example of a salaried manager who led industrialization effort at Mitsubishi. Historian Shigeaki Yasuoka explains:

Heigoro Shoda is credited with turning the Nagasaki Shipyard into a shipyard "on par with those of developed countries" and making it the foundation of Mitsubishi's heavy industry.

Shoda studied at Keio Gijuku, where he was highly regarded by Yukichi Fukuzawa, and was even under consideration as potential head of Keio after Fukuzawa's death. In Meiji 29 [1896], when the Navigation Promotion Law and the Shipbuilding Promotion Law were promulgated, Shoda who was then the chief executive of Mitsubishi, secured an order from NYK to build world-class steamers and began modernizing the Nagasaki Shipyard and Machinery Works. Although supporters of the coal mining industry, Mitsubishi's core business at the time, had opposed to investing the profits in shipbuilding, Shoda moved to Nagasaki to lead the shipyard between Meiji 30 and Meiji 34, directing operations, and he succeeded in building the 600-ton Hitachi-maru. In Meiji 38 under his leadership, the Kobe Shipyard was completed under his leadership. Shoda's activities became the foundation for later aircraft, automobile, and electric machinery manufacturing. In addition, Shoda contributed to the establishment of the Meiji Life Insurance Company and Sanyo Railway Company. The Marunouchi district of the Mitsubishi Estate was originally state-owned land, but Mitsubishi President Yanosuke Iwasaki obtained its lease at the suggestion of Shoda who was in England. As chief executive, he [Shoda] was in charge of most of the management of Mitsubishi Goshi Kaisha (established in Meiji 26); he retired in Meiji 43.¹³

¹³ Yasuoka, S. (1979). *Zaibatsu no takaku-teki kogyoka: Nakamigawa Hikojiro to Shoda Heigoro (The diversified industrialization of zaibatsu: Hikojiro Nakamigawa and Heigoro Shoda)*. In *op. cit.*, K. Nakagawa, H. Morikawa, & T. Yui (Eds.) *The enlarged edition of basic knowledge on modern Japanese business history*. (p. 125).

This positive assessment of Shoda is widely shared among business historians. Morikawa, for example, has also taken up Hikojiro Nakamigawa of Mitsui and Heigoro Shoda of Mitsubishi as representative of salaried managers who promoted industrialization.¹⁴

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



¹⁴See *op. cit.*, Morikawa, H. (1980), pp. 22–31.

Case 6 Zenjiro Yasuda and Soichiro Asano: Zaibatsu Formation Through the Collaboration of Two Owner-Managers



Abstract This case introduces Zenjiro Yasuda, the owner-manager of a financial zaibatsu that lent funds to the companies of Soichiro Asano, a founder of an industrial zaibatsu, concentrating on the transportation of coal and cement during the Meiji period.

General Zaibatsu and Financial/Industrial Zaibatsu

As seen in Cases 4 and 5, Mitsui and Mitsubishi both formed a zaibatsu by breaking away from political powers, appointing salaried managers, and pursuing industrialization. The drastic changes in the business environment since the opening of the ports at the end of the Edo period had expanded business opportunities, and some other owner-managers (aside from those at Mitsui and Mitsubishi) also aimed to form their own zaibatsu. However, from a long-term perspective, these zaibatsu turned out to be very different in nature. Few “general zaibatsu” other than Mitsui and Mitsubishi successfully grew their businesses in all areas of mining, manufacturing, logistics and finance. The majority focused on one of these four areas, such as becoming “financial zaibatsu” or “industrial zaibatsu.” For convenience, the term “industrial zaibatsu” as used here to collectively refers to zaibatsu engaged in mining, manufacturing, and logistics.

We will focus here on Zenjiro Yasuda as the founder of a financial zaibatsu and Soichiro Asano as the founder of an industrial zaibatsu. Both were born in what is now Toyama Prefecture, and both are notable for their close collaboration.

“Yasuda Zenjiro” by Tsunehiko Yui

Historian Tsunehiko Yui provides an excellent biography of Zenjiro Yasuda in his book, “Zenjiro Yasuda: Good Things Come to Those Who Work Out a Strategy” (Minervashobo, 2010). I once wrote a book review in the periodical *Japan Business History Review*¹ that I would like to share here.

Despite the fact that he single-handedly built the Yasuda Zaibatsu, one of the “four major zaibatsu” in prewar Japan, few critical biographies of Zenjiro Yasuda have been published to date. However, Tsunehiko Yui’s book in “Zenjiro Yasuda: Good Things Come to Those Who Work Out a Strategy,” fills this lacuna. The book is organized as follows:

Preface

Chapter 1: From Hometown to Edo, Managing Yasuda-ya – Peddling, Servitude, and Independence

Chapter 2: Meiji Restoration Reforms and Zenjiro Yasuda – The Accumulation, History, and Substance of “Extraordinary Wealth”

Chapter 3: From Money Exchanger to Banker: The Third National Bank and Yasuda Bank

Chapter 4: Establishment of the Bank of Japan and Zenjiro Yasuda – Previously Unknown Activities and Roles

Chapter 5: Diversification and the Formation of Zaibatsu: Rapid Growth and Its Characteristics

Chapter 6: Great Achievement as a Banker and the Other Side of the Story: The Failure of Industrialization and the Limits of Modernization

Chapter 7: Loneliness in Later Years and Death: The Fate of a Banking Champion

Appendix, References, Afterword, Zenjiro Yasuda Timeline, Index of Personal Names and Matters

Since “Zenjiro Yasuda” is a critical biography, the chapters are arranged chronologically and discuss Zenjiro’s life in detail. Chapter 1 begins with Zenjiro’s birth in 1838 (Tenpo 9) and follows his life up to relocation to a shop in Nihonbashi Kobunacho in 1866 (Keio 2); Chapter 2 covers the period until shortly before his appointment as the exchange commissioner by the Ministry of Justice in 1874 (Meiji 7); Chapter 3 leads up to the opening of Yasuda Bank in 1880; Chapter 4 continues to his appointment as a director of the Bank of Japan in 1882 and response to the 1890–1891 economic depression; Chapter 5 covers the period until just before his 60th birthday in 1897; Chapter 6, from his 60th birthday to 1908; and Chapter 7 continues from 1909 to his unexpected death in an attack by thugs in 1921 (Taisho 10), all discussed in detail.

The biography reveals previously little known facts, making full use of primary historical documents and findings from a vast amount of earlier research. Examples include the descriptions of Zenjiro’s toy peddling business in Edo, his speculative actions over Bunkyu Eiho coins and subsequent failure, his business diversification

¹Kikkawa, T. (2012a). Shohyo: Yui Tsunehiko cho ‘Yasuda Zenjiro: Kaho ha nettemate’ (Book review: ‘Zenjiro Yasuda—Good things come to those who work out strategy’ by Tsunehiko Yui). *Japan Business History Review*, 47(2). See also Kikkawa, T. (2010, December 19). Shohyo Yui Tsunehiko cho ‘Yasuda Zenjiro’ (Book review: ‘Zenjiro Yasuda’ by Tsunehiko Yui). *The Nikkei*.

immediately after the Meiji Restoration, the exposure of the shogunate’s official commerce and Dajokan bill transactions, his aggressive business development effort in Tochigi Prefecture, the relationship between Third National Bank and Yasuda Bank, and his activities as a Bank of Japan director. These are the book’s main highlights. A notable example is the description of relations between the Third National Bank and the Yasuda Bank: “It is undeniable that the Third National Bank was ostensibly an open bank, which limited Zenjiro’s ability to exercise his business acumen and ability as he wished. On the other hand, the interior workings of the Yasuda Bank, owned by the Yasuda family, was a bank whose interior workings were unknown to the outside, so that Zenjiro could operate as he wished, sometimes using the former government office or Yasuda Shoten (real estate business) to fully demonstrate his business ability in accordance with his own interests” (p. 104). These are fascinating and persuasive sentences.

An important milestone in the discovery of primary historical documents was the publication of “Yasuda Zaibatsu” (Nikkei Publishing Inc.) in 1986, which was edited by the author Tsunehiko Yui. How this book came to be is described in its “Preface”:

The author was in charge of covering the entrepreneurial activities of the company’s founder, Zenjiro Yasuda, and was able to clarify how and to what extent he accumulated his “extraordinary wealth” in the first year of the Meiji era by examining the account ledgers in Zenjiro’s own handwriting (known as the “Actual Assessment Report”). However, the investment activities and their results from other periods were not clear from the documents available at the time.

Later, however, Mr. Hajime Yasuda, the third head of Yasuda Zaibatsu (then chairman of Yasuda Life), who had read “Yasuda Zaibatsu,” allowed me to see the “Diary” and “Notes” that had been kept and stored deep inside the warehouse as well as to photocopy all of these at the General Affairs Division of Yasuda Real Estate Co. for the purpose of advancing research on his grandfather. These are valuable handwritten documents spanning 30 years of the Meiji era, and I was strongly motivated to write his biography by carefully studying these documents (pp. i–ii).

Thanks to this type of archival research, Yui uncovered much previously unknown information.

When we read a well-written biography, we are strangely moved more by stories of failure than by the protagonists’ stories of success. The same is true with this book.

Although Zenjiro Yasuda displayed unparalleled talent in the financial business, he was unable to achieve any notable results in business management outside of finance. In contrast, Soichiro Asano, a fellow [Toyama] countryman, lacked financial resources but was successful in his business. As a result, Zenjiro’s involvement in business management eventually takes the indirect form of financial support for Soichiro Asano.

After the successive deaths of his adopted sons, whom he had expected to become his business successors, Zenjiro Yasuda handed over the patriarchal position to his son-in-law, Zenzaburo, in 1913. However, Zenzaburo subsequently came into conflict with Zenjiro’s own children (including Zennosuke), and eventually Zenjiro broke with Zenzaburo and his wife Teruko (Zenjiro’s own beloved daughter), and at

the age of 83 returned to the frontline of business management in 1920. It is possible to attribute Zenjiro Yasuda's inability to cultivate successors may be considered his greatest failure.

Passages like this strongly impress readers. Yui also provides an in-depth discussion of Zenjiro Yasuda's failures in a separate article, "The Evolution and Sustainability of Zaibatsu: The Rapid Rise and Setbacks of the Yasuda Zaibatsu" (included in 'Shinka no keieishi: Hito to soshiki no firekisibirithi (*Evolution in Business History: The Flexibility of People and Organizations*)' Takeo Kikkawa and Masakazu Shimada, eds. Yuhikaku, 2008, Chapter 4). In that article, Yui analyzes the business activities of Zenjiro Yasuda who built up the Yasuda Zaibatsu during his own lengthy lifespan, making Yasuda Zaibatsu one of the "Big 4" zaibatsu. While presenting new details about his activities as a Bank of Japan director, and the support he received from politicians influenced by the Satsuma and Choshu feudal domains, the article projects the evolution of Zenjiro Yasuda the man onto the evolution of the Yasuda Zaibatsu as a whole. In the process, we observe the conflict and breakup with his adopted son, Zenzaburo, his devotion to his business partner, Soichiro Asano, and the crisis that ensued, suggesting the difficulty of sharing or transmitting a culture that leads to organizational growth.

Yui's book "Zenjiro Yasuda" and his article "The Evolution and Sustainability of Zaibatsu" delve into the succession problems with dramatic flair. On the other hand, they both leave one wishing that Yui had delved deeper into the psychology of Zenjiro Yasuda to describe his relationship with Soichiro Asano, since Zenjiro must have felt considerable conflict about his dependence on Soichiro.

To be sure, lack of psychological analysis does not diminish the value of Yui's study. Furthermore, Yui writes not only about the failures of Zenjiro Yasuda, but also about his shining successes. This book, describing the light and the shadows of Zenjiro's life, will no doubt be read for many years to come as the definitive biography of Yasuda.

Brief Biography of Zenjiro Yasuda

Let us take another look at the life of Zenjiro Yasuda who was born in 1838 (Tenpo 9) in the castle town of Toyama. His childhood name was Iwajiro. His father, Zentsu (Zenjiro IV), had obtained the position of a low-ranking samurai in the Toyama domain when Iwajiro was a child. After attending a temple school in Toyama, Iwajiro lived a life of peddling and writing. In 1857 (Ansei 4), he moved to Edo in his second attempt to flee his hometown, and under the name Chubei he earned a living by working at a money-exchange store and peddling toys. In 1863 (Bunroku 3), he became independent and in 1864 (Genji 1) he changed his name to Zenjiro, opening Yasuda-ya, a dried bonito shop and money changing business on Nihonbashi Ningyocho Dori.

Achieving success, Yasuda-ya changed its name to Yasuda Shoten in 1866 (Keio 2). In this regard, historian Kazuo Sugiyama notes:

Following its launch, in two years Yasuda-ya became a dedicated money changing operation, and changed its name. As Yasuda Shoten, the company grew by taking advantage of turmoil in money markets at the end of the Edo period and during the Meiji Restoration.

While his peers closed shop fearing violence by nativist ronin [masterless samurai opposing foreign influence], Zenjiro singlehandedly continued buying up old gold and silver coins. It was Zenjiro's daring and agile activities that elevated Yasuda Shoten's reputation. Zenjiro was the first to get wind of the government's policy of using government bills as equivalent to regular gold and silver during the Meiji Restoration, and he purchased large quantities of Dajokan bills that had fallen to 30% of their original value. Obviously this purchase earned Yasuda Shoten a significant profit.

Yasuda Shoten later served as the treasurer for the Ministry of Justice, the Tokyo Prefectural Government, and other government agencies, and used this money to purchase Chitsuroku and Kinroku public bonds whose price had fallen to 70% of face value, making them a lucrative and stable investment. As the business grew, Yasuda Shoten began to implement a series of reforms such as creating a new clause regarding capital funds and around Meiji 10 (1877) adopted the balance-sheet method of accounting. Thus, Yasuda Shoten grew to effectively become a bank.²

Zenjiro's "bold and agile moves"—purchase of old gold and silver coins at the end of the Edo period, purchase of Dajokan bills immediately after the Meiji Restoration, and acquisition of the Chitsuroku and Kinroku public bonds—reflected his outstanding talent in finance that made him one of Japan's leading bankers.

In 1877 (Meiji 10), Zenjiro established the Third National Bank in partnership with Hachiemon Kawasaki and Ichirozaemon Matsushita. Yasuda also reorganized Yasuda Shoten and opened Yasuda Bank in 1880. Why did he open the Third National Bank and Yasuda Bank in a span of only 3 years? Sugiyama explains: "Although the Third National Bank was authorized to issue banknotes, it was required to report its business to the government. Also, as a joint stock organization, it needed to respect the opinions of other influential shareholders, even though Zenjiro was the major shareholder. However, response to dramatic changes in the economic environment required decisive, prompt, and bold action under his own responsibility. Such freedom could only be ensured in a private company—this was Zenjiro's thinking".³ Interestingly, this view is similar to Tsunehiko Yui's perspective as described earlier.

After becoming a renowned banker, Zenjiro was appointed as Director and Head of the Discount Department of the Bank of Japan upon its opening in 1882. Henceforth, Yasuda continued to hold key positions at the Bank of Japan. At the same time, Zenjiro diversified his business beyond banking. Yet with the exception of the financial sector, most of Yasuda's diversification efforts were unsuccessful. Historian Toshimitsu Asano elaborates:

Yasuda is often referred to as a financial zaibatsu. However, this characterization may be inaccurate. Zenjiro was an entrepreneur who aimed to diversify his business, a common practice among entrepreneurs at that time, and the number of businesses he invested in and

²Sugiyama, K. (1979). *Kojin ginko no sosetsu: Yasuda-ginko no seisei (The foundation of an individual bank: The creation of Yasuda Bank)*. In *op.cit.*, K. Nakagawa, H. Mori, & T. Yui (Eds.). *The enlarged edition of basic knowledge of modern Japanese business history*. (pp. 28–29).

³*Ibid.*, p. 29.

managed was extensive. His first venture outside of banking was the insurance business, closely related to his existing business – Kyosai Gohyakumei Company (which later became Yasuda Life Insurance Company). However, he also took a strong interest in the so-called “industry” and his business scope was extensive. He invested in and operated almost equally in all of the following areas: sulfur mining, coal mining, nail-manufacturing, thread-spinning, iron, railroad, and shipbuilding industries.⁴

Yasuda thus managed diverse businesses from various angles, but ultimately he could not sustain most of them.... The main reason for this seems to be that Zenjiro lacked a strong management staff around him. This lack of managerial staff was the major difference between Yasuda and Mitsui, Mitsubishi, and Sumitomo. Yasuda’s voracious appetite for business was fulfilled not by those in proximity who were involved in his businesses, but rather indirectly by the bold industrial entrepreneur, Soichiro Asano.⁵

Historian Toshimitsu Asano believes that Zenjiro’s failure to diversify his business was due to his late start in appointing salaried managers and building up the managerial staff. Although Zenjiro did not succeed in commercializing his own “industry,” his financial contributions supporting other entrepreneurs’ attempts to commercialize their industries was highly significant. The main recipient of his support was Keijiro Amenomiya until the middle of the Meiji period, and Soichiro Asano thereafter. Asano will be discussed in the next section. Yasuda provided active support to Amenomiya, an energetic entrepreneur hailing from the Koshu region (present-day Yamanashi prefecture), who made a significant contribution to the emergence of the railroad industry in Japan, by investing in the Koku Railway Company.

Zenjiro Yasuda retired from the business frontline in 1913 (Taisho 2). In 1921, he died tragically after being attacked by members of the Kokusui-kai (a right wing organization) at his villa in Oiso.

Brief Biography of Soichiro Asano⁶

Soichiro Asano was born in 1848 (Kaei 1) in Imizu County, Etchu Province (present-day Himi City, Toyama Prefecture). He was involved in various businesses from his youth, but left his hometown after repeated business failures and moved to Tokyo in 1871 (Meiji 4). After working as a water seller and wood merchant, he settled down as a coal merchant.

⁴Asano, T. (1978). Yasuda Zenjiro: Ishoku no kinyuzaibatsu keiseisha (*Zenjiro Yashuda: A unique figure who shaped a financial zaibatsu*). In *op.cit.*, S. Yasuoka, Y. Nagasawa, T. Asano, Y. Mishima, & M. Miyamoto (Eds.) *Japanese entrepreneurs 1: The Meiji edition* (p. 110).

⁵*Ibid.*, p. 115.

⁶Explanation based mainly on Teratani, T. (1979). Asano Soichiro to Asano zaibatsu: Sangyo zaibatsu no keisei (*Soichiro Asano and Asano zaibatsu: The formation of industrial zaibatsu*). In *op.cit.*, K. Nakagawa, H. Morikawa, & T. Yui (Eds.) *The enlarged edition of basic knowledge on modern Japanese business history* (pp. 129–130).

While selling coal, he turned his attention to coke, which at the time was being discarded, as it had no known use. After confirming that coke could be used as fuel, he became a successful coke merchant. His success both as a coal and coke merchant caught the attention of businessman Eiichi Shibusawa, who offered Soichiro support.

Soichiro then turned his attention to the cement business. In 1881, he was granted a lease for the government-run Fukagawa Cement Works, his guarantor at the time Eiichi Shibusawa. After he successfully restructured the government-run Fukagawa Cement Works which had been forced to suspend operations due to poor performance, in 1883, the government sold the factory to Soichiro, who renamed it the Asano Cement Company. It grew steadily and became the core company of the Asano Zaibatsu.

In addition to the cement business, Soichiro became involved in various coal-related businesses, including the management of the Iwaki Coal Mine Company and of Tokyo Gas Company. Of these two companies, Eiichi Shibusawa was listed as a partner in Tokyo Gas.

Soichiro's continued focus on fuels also led him to the oil business. Through the introduction of Eiichi Shibusawa, he imported and sold Russian oil through Marcus Samuel Trading Company (the predecessor of Rising Sun Oil Company and Shell Oil), and then turned to selling domestic oil produced by the Japanese company Hoden Oil. However, Soichiro's own oil business came to an end in 1904 when it merged with Hoden Oil. In turn, Hoden Oil merged with Nippon Oil in 1921 (Taisho 10).

Through the transportation of coal and cement, Soichiro also became involved in shipping, establishing Toyo Steamship Company in 1896 (Meiji 29). The company grew rapidly during the boom years following World War I and became one of the largest shipping companies after Nippon Yusen and Osaka Shosen.

In addition, in cooperation with Zenjiro Yasuda, Soichiro, established the Tsurumi Maichiku Company in 1913 (Taisho 2), working on land reclamation for the Keihin Industrial Zone. He also established the Asano Shipyard in 1916.⁷

As shown, Soichiro's appetite for business was boundless. In 1918, he established the Asano Family Company as a holding company to control his subsidiaries in cement, coal, shipping, land reclamation, shipbuilding, and other businesses.

Although Soichiro aggressively diversified his business, he never fully entered the financial sector; Soichiro died in 1930. The only exception was his acquisition of Daigo Bank (Fifth Bank) in 1916 (Taisho 5), which he ran as Nihon Chuya Bank (later, Asano Chuya Bank), but the bank performed poorly and was sold to the Yasuda Zaibatsu in 1922, becoming once again Nihon Chuya Bank. Thus, Asano Zaibatsu was a typical industrial zaibatsu. Soichiro Asano died in 1930.

⁷For details of Asano Shipyard see: Kobayakawa, Y. (1986). Yuki Mori kaikaku to Yasuda zaibatsu no saihensei (*Yuki and Mori reforms and the reorganization of Yasuda zaibatsu*). In T. Yui (Eds.), *Yasuda zaibatsu (Yasuda zaibatsu)*. Tokyo: Nikkei Publishing Inc.

Cooperation Among Owner-Managers

As he developed his businesses, Soichiro Asano often received support from Eiichi Shibusawa. In this case, an owner-manager was helped by an investor-manager. It is noteworthy that Soichiro was also often supported financially also by Zenjiro Yasuda. Historian Yui describes the relationship between Yasuda and Asano in the mid-Meiji period as follows:

During this period, Zenjiro was not successful in managing modern industry. However, not all of Zenjiro's effort toward industrialization failed. After Keijiro Amenomiya [who died in Meiji 36/1903], Zenjiro saw in Soichiro Asano the bold entrepreneurial spirit and managerial talent needed to tackle modern industry.⁸

The first investment Zenjiro made for Soichiro Asano was in Toyo Steamship Company, established in April of Meiji 29 [1896] after the Sino-Japanese War. As is well known in the history of Japanese shipping, Toyo Steamship was intended to be an international liner to challenge the monopoly held by Nippon Yusen at that time. Soichiro Asano invited dozens of acquaintances from the Keihin [industrial region in Eastern Japan] area, including Eiichi Shibusawa, Kihachiro Okura, Zenjiro Yasuda, Sobei Iwade, Saburobei Oku, and Shinzo Tanaka, and gave a presentation about the establishment of the new company. Reportedly, Zenjiro was the first to openly support the idea.⁹

In 1899, Yasuda Bank began lending to Asano Cement. Historian Tsunehiko Yui, referring to the relationship between Soichiro Asano and Zenjiro Yasuda during the World War I era, noted: "Soichiro Asano's Toyo Steamship and Asano Cement were two of the companies that grew particularly rapidly during this period. Although Zenjiro had already retired, he trusted Asano and continued to invest in and finance these two companies, which he had already invested in, as quasi-Yasuda companies. The strong performance of Yasuda-affiliated banks during World War I was largely due to Asano's unusually vigorous entrepreneurship."¹⁰

Historian Takeaki Teratani outlines the relationship between the Asano Zaibatsu and the Yasuda Zaibatsu: "The Asano Zaibatsu is an industrial zaibatsu that lacks a financial sector, and its weak capital base has often been highlighted, but through its close relationship with Yasuda, a financial zaibatsu, the two often worked together to resemble a single, general zaibatsu. Some view Asano as being in charge of the industrial sector of such a general zaibatsu."¹¹ Both Soichiro and Zenjiro were owner-managers. In the process of Japan's industrialization, owner-managers sometimes cooperated with each other, as evident here.

⁸ Yui, T. (2010). *Yasuda Zenjiro: Kaho-ha nettemate (Zenjiro Yasuda: Good things come to those who work out strategy)*. Kyoto: Minervashobo. (p. 255).

⁹ *Ibid.*, pp. 255–256.

¹⁰ *Ibid.*, p. 308.

¹¹ *Op. cit.*, Teratani, T. (1979), p. 130.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 7 Eiichi Shibusawa: Mobilization of Managerial Resources by an Investor-Manager



Abstract This chapter discusses Eiichi Shibusawa, a representative example of an investor-manager who played a pivotal role in the process of Japan's industrialization.

A Tumultuous Life

We now turn to the third type of manager, the investor-manager, differing from the salaried manager and the owner-manager. Eiichi Shibusawa is a representative example of an investor-manager who played an active role in the process of Japan's industrialization.¹

On the Shibusawa Eiichi Memorial Foundation's website, the following overview is available in the "Brief Biography of Eiichi Shibusawa" section. The following is a translation of the Japanese site.

Eiichi Shibusawa was born on February 13, 1840 (Tenpo 11), in a farmhouse in Chiaraijima village in present-day Fukaya City, Saitama Prefecture. While assisting his family with farm work, the production and sale of indigo beads, and sericulture, his father taught him with his cousin Atsutada Odaka [Junchu Odaka] from an early age, and was introduced him to the study of the "Analects" [The Analects of Confucius] and other subjects. Eiichi and his cousin, influenced by the Sonno Joi ideology [to promote the Emperor and expel foreign

¹For details of Shibusawa Eiichi, see Shimada, M. (2007). *Shibusawa Eiichi no kigyosha katsudo no kenkyu: Senzenki kigyo sisutemu no soshutsu to shusshisha keieisha no yakuwari (Studies of the activity of Eiichi Shibusawa as an entrepreneur: The creation of prewar corporate systems and the role of investors and corporate managers)*. Tokyo: Nihon Keizai Hyouronsha; Shimada, M. (2011). *Shibusawa Eiichi: Shakaikigyoka no senkusha (Eiichi Shibusawa: A pioneering social-oriented entrepreneur)*. Tokyo: Iwanami Shoten Publishers; Kikkawa, T., & Fridenson, P. (Eds.) (2014). *Gurobaru shihonshugi no nakano Shibusawa Eiichi: Gappon kyapitarizumu to moraru (Eiichi Shibusawa in global capitalism: Gappon capitalism and morals)*. Tokyo: Toyo Keizai Inc.; Miyamoto, M. (Ed.) (2016). *Nihon no kigyoka 1 Shibusawa Eiichi: Nihon no kindai no tobira wo hiraita zaikai rida (Japanese entrepreneur 1: Eiichi Shibusawa—business leader who opened the doors to Japan's modernization)*. Kyoto: PHP Institute, Inc.; and Fridenson, P., & Kikkawa, T. (Eds.) (2017). *Ethical capitalism: Shibusawa Eiichi and business leadership in global perspective*. Toronto: University of Toronto Press.

forces from Japan], made plans to take over Takasaki Castle but decided against it and headed for Kyoto. There, Eiichi entered the service of Yoshinobu Hitotsubashi (later, Yoshinobu Tokugawa), where he gradually gained recognition for his abilities in improving the family affairs of the Hitotsubashi family.

At the age of 27, Eiichi accompanied Akitake Tokugawa, later lord of the Mito Domain and the younger brother of the 15th shogun Yoshinobu Tokugawa, to the World Exposition in Paris. There he observed and learned about life in European countries and gained a broad understanding of the developments in various advanced economies.

After the Meiji Restoration, Eiichi returned from Europe and established the “Commercial Law Office” in Shizuoka. He was invited by the Meiji government to become a member of the Ministry of Finance, getting deeply involved in Japan’s nation-building efforts.

After stepping down from the Ministry of Finance in 1873 (Meiji 6), Eiichi flourished as a businessman in the private sector. He started his new career as superintendent (later, president) of the First National Bank (Daiichi Kokuritsu Ginko). Eiichi, based at First National Bank, focused on creating and fostering corporations through joint-stock company organizations. In addition, he continued to preach the “unity of morality and economy” principle and was involved with about 500 companies in his lifetime. Eiichi devoted himself to the support of some 600 educational institutions, social and public services, and private-sector diplomacy – greatly missed by many when he passed away on November 11, 1931 (Showa 6) at the age of 91.

Clearly, over the course of his 90-plus years, Eiichi Shibusawa changed his professional position several times: from farmer to shogunate retainer (samurai) to official of the Meiji government to private businessman. In addition, although initially a believer of Sonno-joi ideology of revering the Emperor and expelling foreign forces, he changed his thinking after traveling to Europe at the end of the Edo period, becoming a business leader with global perspective in prewar Japan.

These shifts do not mean that Eiichi led an opportunistic life without vision—quite the opposite. During the turbulent period from the end of the Edo era through the Meiji Restoration to the early Showa era, he placed himself in the most effective position at any given moment to promote Japanese modernization and industrialization, doing so with great dedication. In this, his approach and purpose were consistent.

During his 90-plus years, Japan experienced a series of transitions: the opening of the ports at the end of the Edo period, the Meiji Restoration, the Industrial Revolution, urbanization and electrification, and establishment of heavy and chemical industries, continuously following the path of modernization and industrialization. Eiichi always stood at the forefront of this process—the reason he is often called the “father of Japanese capitalism.”

As an Investor-Manager

Eiichi Shibusawa’s activities after resigning from the Ministry of Finance and becoming a private-sector businessman can be viewed from four different perspectives: (1) investor-manager; (2) social entrepreneur; (3) business leader; and

(4) private-sector diplomat. The following sections will discuss each of these in depth in turn.

Eiichi Shibusawa was not a salaried manager like Hikojiro Nakamigawa, nor an owner-manager like Yataro Iwasaki, Zenjiro Yasuda, or Soichiro Asano, but rather an investor-manager. Masakazu Shimada, who identified Shibusawa as such, examined Shibusawa's business activities in detail.²

According to Shimada, Shibusawa's entrepreneurial activities had two aspects: (1) simultaneously establish multiple modern companies, and (2) set on track infrastructure-related industries that require long-term commitment and are required for modernization. In the former, the following mechanism was important: *establish the stock price to secure funds by selling part of the shares, and then use the funds to establish the next company*. To accomplish the latter, "the utilization of a wide range of entrepreneurial contacts with financial resources" was of great importance.³

Shimada classifies into three categories Shibusawa's roles at shareholders' meetings following the establishment of a company: (1) participation as a major shareholder; (2) involvement as an external executive; and (3) offer of support for mergers outside of shareholder meetings. Shimada concludes that "in all cases, the function expected of Shibusawa was to resolve problems through coordination, arbitration, and mediation among conflicting interests."⁴

One investor-manager similar to Eiichi Shibusawa is Tomoatsu Godai, mainly active in Osaka. The two were referred to as "Eiichi Shibusawa of the East and Tomoatsu Godai of the West" (East = eastern Japan; West = western Japan).

As we see in the contrasting picture of "individualism versus collectivism," the difference between the owner-manager and the investor-manager was that the former considered the company to be his own, while the latter viewed it as belonging to a large number of shareholders. Moreover, the difference between a salaried manager and an investor-manager is that the former became a manager based solely on expertise, not on investment, whereas the latter became a manager based on capital contribution. Thus, the investor-manager was a third type of businessman, different from the owner-manager or the salaried manager.

Table 1 shows a selection of Shibusawa's activities as an investor-manager, taken from the "Chronology" section of the Shibusawa Eiichi Memorial Foundation's website.

As professional managers were promoted within the company, they often acquired shares in the company and became investors. However, they were promoted only because of their expertise, with the investment only an incidental result of their promotion.

² *Op. cit.*, Shimada, M. (2007).

³ *Ibid.*, chap. 1.

⁴ *Ibid.*, chap. 3.

Table 1 Eiichi Shibusawa's activities as an investor-manager

1873 (Meiji 6)	Opened First National Bank, served as superintendent. Founded Shoshi Kaisha (later, Chairman of the Board, Oji Paper Company)
1875	President, First National Bank
1883	Inaugurated Osaka Spinning Company (Osaka Boseki Kaisha). Founder (later, Advisor)
1884	Board member of Nippon Railroad Company (later, Director)
1885	Founded Nippon Yusen Kaisha (later, Director). Founded Tokyo Gas (Chairman of the Founding Committee and later, Chairman of the Board)
1886	Founded Tokyo Electric Light Company
1887	Founded Nippon Brick Manufacturing Company (later, Chairman of the Board). Founded the Teikoku Hotel (Imperial Hotel) (later, Chairman of the Board)
1888	Founded Sapporo Biru Kaisha (Sapporo Beer Company) and Representative of Founders (later, Chairman of the Board)
1889	Founded Tokyo Ishikawajima Shipyard Company (later, Chairman of the Board)
1892	Founded and became Director (later, Chairman of the Board) of Tokyo Savings Bank
1895	Founded Hokuetsu Railway and became its Auditor (later, Senior Advisor)
1896	Founded and became a Director of Japan Sugar Refining Company (Board member). Daiichi National Bank became Dai-Ichi Bank as operations matured (continued to serve as President). Founding member of Nippon Kangyo Bank
1897	Inaugurated Shibusawa Warehouse Department (later, Founder of Shibusawa Warehouse Company)
1900	Founding committee member, Industrial Bank of Japan
1906	Established and served as Director of Tokyo Electric Power Company. Founded Keihan Electric Railway Company and served as Chairman of the Founding Committee (later, Senior Advisor)
1907	Founded the Imperial Theatre Company (later, Chairman of the Board)
1909	Resigned from the Board of Directors of many companies and organizations
1916 (Taisho 5)	Stepped down as President of Dai-Ichi Bank and retired from the frontline of business
1928 (Showa 3)	Founded Nippon Koku Yuso Kaisha

Complementary Effects Among the Three Types of Managers

So far, we have seen that three types of businessmen were active in Japan's industrialization process: salaried managers such as Hikojiro Nakamigawa, owner-managers such as Yataro Iwasaki, Zenjiro Yasuda, and Soichiro Asano, and investor-managers such as Eiichi Shibusawa. What was the relationship among these three types?

As the scale of business expanded and diversification progressed, owner-managers could no longer carry out business management on their own and began to enlist salaried managers. A typical example of this was the active recruitment of

salaried managers by Yataro and Yanosuke Iwasaki, the founders of the Mitsubishi zaibatsu.

Among the owner-managers who lacked sufficient fund-raising capacity, some established joint stock companies or relied on bank loans from an early stage. In such cases, they had to rely on the power of investor-managers such as Eiichi Shibusawa, who was dubbed “the man behind new joint stock companies.” Also, as Shibusawa was the president of Dai-Ichi Bank, he supported owner-managers through bank loans. Soichiro Asano and Ichibei Furukawa were typical recipients of help from Shibusawa.

Eiichi, an investor-manager, also focused on educating businessmen and supported the establishment and development of many institutions of higher learning, such as the Tokyo Higher Commercial School (now Hitotsubashi University). From the latter half of the Meiji period, the School’s graduates joined many large corporations, including the Mitsui Group, thriving as salaried managers. Here, a mechanism operated with investor-managers supporting the nurture of salaried manager candidates.

The key to success or failure in the industrialization of a late developer lies in how effectively scarce resources such as human and financial capital can be utilized. Reviewing Japan’s industrialization process and the utilization of human capital, one sees the significance of the active role allowed to salaried managers. The presence of owner-managers who actively hired them, and investor-managers who supported their education, was important.

In terms of financial capital, it was significant that salaried managers used the owner-managers’ funds for industrialization, while the investor-managers mobilized public funds by adopting a joint-stock company format at an early stage (Shibusawa also mobilized funds in the form of bank deposits). Thus, three types of businessmen—owner-managers, salaried managers, and investor-managers—worked in complementary fashion to effectively utilize scarce resources of human and financial capital. This mechanism can be usefully applied to the industrialization process of all late developing economies.

As a Social Entrepreneur

As a social entrepreneur, Eiichi Shibusawa’s activities were diverse: supporting vocational training and girls’ education, contributing to social projects, attempting to unify different ideologies, and seeking to build a new labor-management relationship. Table 2 shows a selection of Shibusawa’s activities as a social entrepreneur, based on the “Chronology” available on the Shibusawa Eiichi Memorial Foundation’s website.

The historian Shimada evaluates Shibusawa as follows:

He not only successfully managed the various companies he was involved in, but also actively expressed his opinions on economic policy, exercised a certain degree of influence, and continued his active engagement in the development of human talent through social

Table 2 Eiichi Shibusawa's activities as a social entrepreneur

1874 (Meiji 7)	Commissioned by the Governor of Tokyo to oversee shared funds
1876	Administrative Director of Tokyo Foster Home (later, President)
1880	Founded and became a member of Hakuai-sha (later, a permanent member of the Japanese Red Cross Society)
1885	President of Tokyo Foster Home
1886	Founded Ryumon-sha
1888	Opened Tokyo Jogakkan [Tokyo School for Women]; became its Auditor (later, Principal)
1901	Opened Japan Women's University (Nippon Joshi Daigakko) and became its Auditor (later, Principal)
1912 (Taisho 1)	Founded the Kiitsu Association
1913	Founded and became Vice President (later, President) of the Japan Association for the Prevention of Tuberculosis
1919	Founded and became Vice President of the Kyocho Kai [Cooperation Society]
1923	Founded and became Vice President of the post-Great Kanto Earthquake Benevolent Association
1924	Principal of Tokyo Jogakkan [Tokyo Schools for Women]
1927 (Showa 2)	Founded and became Chairman of the Japan International Children's Friendship Society
1928	Founded Tokyo Women's Higher Commercial School
1929	Founded and became Chairman of the Central Association for Welfare of the Blind
1930	Adviser of the Overseas Colonial School

programs and education. He created a model for the expansion and reproduction of wealth and practiced the redistribution of wealth back into society. While he was a private businessman he had his own views and influenced economic policy. These activities can be described as the forerunners of the activities of “social entrepreneurs” who are in great demand these days: “entrepreneurs who achieve social innovation by solving problems and creating new mechanisms through ground-breaking innovations” (Economic and Social Research Institute [ESRI], Cabinet Office, Government of Japan, “Social Innovation Case-book 2008”)⁵

As a Business Leader

Table 3 shows a selection of Shibusawa's activities as a business leader from the “Chronology” on the Shibusawa Eiichi Memorial Foundation's website.

The historian Miyamoto asked: “Why did Meiji Japan need a business leader like Shibusawa?” As Japan at the time needed two things in particular—“the ability to accurately gather economic intelligence” and “an organizational structure capable of

⁵*Op. cit.*, Shimada, M. (2011), p. iii.

Table 3 Eiichi Shibusawa's activities as a business leader

1875 (Meiji 8)	Founded Commercial Law School
1876	President of the Tokyo Chamber of Commerce and Industry
1877	Founded Takuzen-kai (later, Chairman of the Tokyo Bankers' Meeting House)
1878	Founded and became Chairman of the Tokyo Commercial Law Commission (later, Chairman of the Tokyo Chamber of Commerce and Industry)
1891	Founded and became Committee Chairman of the Tokyo Clearing House
1910	Founded and became Vice Chairman of the Production Research Council, a government advisory body
1913	Founded and became Chairman of the Japan Business Association

utilizing new technology and knowledge”—Miyamoto offered the following analysis:

Those who wanted to start a new business were expected to be first and foremost well-informed and strong coordinators. Contacts with politicians and foreigners with useful information, broad credibility among businessmen, and the ability to coordinate different interest groups were needed. However, these entrepreneurial skills were a scarce resource, concentrated in a limited number of persons in a given period and region. In Kyoto, the role was filled by Gentaro Tanaka, in Nagoya by Masaka Okuda, in Osaka by Tomoatsu Godai, and after his death by Denzaburo Fujita, Ichibei Tanaka, and Michio Doi, while in Tokyo the role was [singlehandedly] filled by Eiichi Shibusawa for a long period of time through Meiji, Taisho and Showa.⁶

As a Private-Sector Diplomat

Table 4 shows a selection of Shibusawa's activities as a private-sector diplomat (from the “Chronology” on the Shibusawa Eiichi Memorial Foundation's website). Many were undertaken at the request of the government.

The historian Masato Kimura, taking the view that Shibusawa's private-sector diplomacy was underpinned by his commercial ethics, stated:

Although Shibusawa kept saying he was an amateur at diplomacy, he believed that it was part of commercial ethics for private-sector business leaders to get involved. In other words, he accepted the government's request because he believed that private-sector diplomacy was part of a broader, active commercial ethics that would facilitate entrepreneurial activities in a global society that extended beyond national borders. After his 60th birthday, Shibusawa

⁶See Miyamoto, M. (2014). Mierute niyoru shihonshugi: Kabushikigaisha-seido, zaikajin, Shibusawa Eiichi (Capitalism by 'visible hand': Joint stock company system, businesspersons, and Eiichi Shibusawa). In *op.cit.*, T. Kikkawa, & P. Fridenson (Eds.) *Eiichi Shibusawa in global capitalism: Gappon capitalism and morals* (pp. 109–110).

Table 4 Eiichi Shibusawa's activities as a private-sector diplomat

1879	General Ulysses S. Grant (formerly 18th President of the United States) Welcome Party (Chairman of the Tokyo Committee to Welcome General Grant)
1902	Travelled to Europe and the United States with his wife Kaneko and met with President Theodore Roosevelt
1908	Invited a group of businessmen from the Pacific Coast of the United States
1909	Organized a business delegation to the United States and led the trip. Met with President William Howard Taft
1912 (Taisho 1)	Founded and became Honorary Chairman of the New York Japan Society Cooperation Association
1914	Visited China to establish partnerships between Japanese and Chinese business circles
1915	Travelled to the United States for the Panama Canal Opening Exhibition. Met with President Woodrow Wilson
1916	The Committee on U.S.-Japan Relations is formed. Became a member of the Standing Committee
1917	Founded the Japan-US Society. Becomes its Honorary Vice President
1920	Founding Chairman of the League of Nations Association of Japan
1921	Travelled to the United States to address anti-Japanese sentiments and policies. Met with President Warren G. Harding
1924	The Maison Franco-Japonaise opens. Became President of the Board of Directors
1926	Founded and became Chairman of the Board of Trustees of the Japan Institute of Pacific Relations
1927 (Showa 2)	Hosted a welcome party for a Japanese-American goodwill doll exchange

visited the United States four times, Europe once, China once, Korea several times, and actively worked towards improving these countries' relations with Japan.⁷

Gapponshugi and Its Significance Today

The economic philosophy that underpinned Shibusawa's success as a private entrepreneur was Gapponshugi, or the principle of collaboration. It refers to "the idea of bringing together the human and financial capital best suited to pursuing the public good and promoting business."⁸

Teiji Kenjo, who wrote a critical biography of Shibusawa, states that "Gapponshugi was positioned at the core in the formation of 'joint-stock

⁷Kimura, M. (2014). Gurobaru shakai ni okeru Shibusawa Eiichi no shogyo dotokukan (*Eiichi Shibusawa's commercial and moral views in the global community*). In *op.cit.*, T. Kikkawa, & P. Fridenson (Eds.) *Eiichi Shibusawa in global capitalism: Gappon capitalism and morals* (p. 175).

⁸Kikkawa, T. (2017). Introduction. In *op.cit.*, P. Fridenson, & T. Kikkawa, (Eds.) *Ethical capitalism: Shibusawa Eiichi and business leadership in global perspective* (p. 3).

companies””,⁹ thus linking it to the joint-stock company system that Shibusawa introduced to Japan. Shibusawa’s Gapponshugi is therefore usually understood to highlight the financial aspect of mobilizing social funds.

However for a late developer nation to accomplish industrialization and achieve growth as an emerging economy, it is crucial to secure human and financial capital. In fact, as a recent study has revealed, “Shibusawa Eiichi’s principle of Gapponshugi was a method of developing human as well as financial resources”.¹⁰

⁹Kenjo, T. (2008). *Hyoden Nihon no keizaishiso: Shibusawa Eiichi, dotoku to keizai no aida (A critical biography on Japanese economic thought: Eiichi Shibusawa, between moral and economy)*. Tokyo: Nihon Keizai Hyouronsha.

¹⁰Kikkawa, T. (2013). Shibusawa Eiichi no hitozukuri ni chumoku suru riyu: Kohatsukoku kogyoka heno shisa to shihonshugi-kan no saikochiku (*Why we pay attention to Eiichi Shibusawa’s human resources development: Suggestions for the industrialization of developing countries and reconstructing views of capitalism*). In T. Kikkawa, M. Shimada, & K. Tanaka (Eds.), *Shibusawa Eiichi to hitozukuri (Eiichi Shibusawa and his human resources development)* (p. 1). Tokyo: Yuhikaku Publishing Co., Ltd.



Eiichi Shibusawa (left) meeting with Chiang Kai-shek, leader of the Nationalist Party of the Republic of China, in 1927. (Photo courtesy of Jiji Press)

In 2006, the Shibusawa Eiichi Memorial Foundation published the results of a survey on Shibusawa Eiichi's individual donations throughout his life, categorized by fields. It showed that "education and academic" led the list in terms of both amount and number of donations (approximately 35% in value and 30% in number).¹¹ Shibusawa believed that fostering and securing human capital was essential to the formation of modern Japan, devoting a great deal of effort to the cause.

In "Conclusion," I plan to propose an overhaul of Japanese-style management through a transition to a "new Japanese-style management" that places more emphasis on long-term employment and less on the seniority system. The philosophy of this restructuring has much in common with Shibusawa's *Gapponshugi* that greatly values human capital. The new Japanese-style of management emphasizes long-term

¹¹ *Ibid.*, pp. 1–2.

employment, providing employees with a sense of security, based on Shibusawa’s people-centric capitalism. On the other hand, new Japanese-style management, by rejecting the seniority system and adopting meritocracy, encourages competition among employees, also consistent with Shibusawa’s emphasis on utilizing an open market mechanism.

Furthermore, the long-term perspective of new Japanese-style management is in line with Shibusawa’s position that often required a long-term commitment from shareholders in the companies they invested in. Thus, Shibusawa’s principle of Gapponshugi overlaps with conventional capitalist values in the following ways:

1. It aimed for an open economic system that utilized market mechanisms in contrast to the closed economic system formed by zaibatsu.
2. It limited the role of government and was oriented towards private-sector-led economic management.

However, it differs from conventional capitalist values in some areas:

1. It asked stakeholders, including shareholders, to make a long-term commitment.
2. It emphasized a moral perspective when uniting stakeholders (shareholders and management), discouraging self-serving behavior.
3. It called for a certain level of order in corporate competition.

If we can systemically make use of these unconventional capitalist values, it might be possible to create a new capitalist value to replace the one that is dominant today, which can be summarized as the “worship of money-making.”¹²

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter’s Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter’s Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



¹²For details see Kikkawa, T. (2017). *The reorganization of capitalism and the ethical capitalism of Shibusawa Eiichi*. In *op.cit.*, Fridenson, P., & Kikkawa, T. (Eds.). *Ethical capitalism: Shibusawa Eiichi and business leadership in global perspective* (chap. 8).

Discussion Point 2: How Did Japan’s Economy Manage to Take Off So Early? Conditions That Enabled the First Successful Industrialization Case Among Latecomer Nations



Abstract This section analyzes the factors that enabled Japan to be the first “latecomer” nation to successfully industrialize. It emphasizes the synergy between three different types of managers—owner-managers, salaried managers, and investor-managers—working together to advance the Japanese economy and achieve breakthrough innovations.

General Requirements for Latecomer Nations’ Industrialization

Japan’s rapid industrialization process from the Meiji period onward can be regarded as a typical example of latecomer industrialization in world history. As Alexander Gerschenkron has argued, such latecomer countries’ achievement may have been relatively rapid through the use of borrowed technology and capital already accumulated by developed countries. but the lack of capital, markets, skilled labor, technicians, and entrepreneurship necessitate coordination between the government and banks, as well as certain ideologies.¹ In Japan specifically, the government, financial institutions, trading companies, shipping companies, and others played an important role in the process of industrialization, as did the ideology of “business management nationalism.”²

The emergence of numerous government-owned factories and mines in the period immediately after the Meiji Restoration as part of the “industrial development policy,” and the implementation of a series of industrial promotion policies through “Sino-Japanese Postwar Management” and “Russo-Japanese Postwar Management,” are evidence that the government played a major role in Japan’s industrialization. However, the government’s role should not be overemphasized. Many of the

¹Gerschenkron, A. (1962). *Economic backwardness in historical perspective*, Cambridge, MA: The Belknap Press of Harvard University Press.

²Morikawa, H. (1973). *Nihon-gata keiei no genryu: Keiei nashonarizumu no kigyorinen (The roots of Japanese-style management: Corporate philosophy of management nationalism)*. Tokyo: Toyo Keizai Inc.

government-run factories and mines failed to flourish, their full development commencing only after they were sold off to the private sector,³ starting in 1880 (Meiji 13), and reconstituted as private companies. The shipping, shipbuilding, and steel industries that were the target of the “Sino-Japanese Postwar Management” and “Russo-Japanese Postwar Management” programs, thrived in the private sector even as they received political support. For example, the opening of the government-run Yawata Steel Works in 1901 was followed by the establishment of Sumitomo Steel Casting in 1901; the start of flat furnace steelmaking at Kamaishi Iron Works in 1903; the establishment of Kobe Steel Works in 1905; the construction of a steel forging plant at Kawasaki Dockyard in 1906; the establishment of Nippon Steel Works in 1907; and other active developments in private steel manufacturing.

Thus, Japan's industrialization process was not necessarily government-led, but rather progressed in a mutually complementary manner between the government and the private sector. Referring to Gerschenkron's argument, Keiichiro Nakagawa emphasizes the important role played by trade-related “organized entrepreneurial activities” in Japan's industrialization process.⁴ In order for the cotton and silk industries to become internationally competitive, trading companies,⁵ shipping companies, banks, and marine insurance companies made significant contributions, serving as “the infrastructure of modern industry.”⁶ Gerschenkron's and Nakagawa's arguments relate to the prerequisites for industrialization that are applicable not only to Japan but also to other late starter nations in general. However, discussions on Japan's industrialization should go beyond identifying prerequisites for industrialization in late developers, as Japan was the first country outside of Europe and the United States to achieve industrialization.

³For the privatization of governmental businesses, see Kobayashi, M. (1977). *Nihon no kogyoka to kangyoharaisage (Japan's industrialization and sale of government projects)*. Tokyo: Toyo Keizai Inc.

⁴Nakagawa, K. (1967). *Nihon no kogyoka katei ni okeru soshikika sareta kigyosha katsudo (Organized entrepreneurial activity in the process of Japan's industrialization)*. Keieishigaku (*Japan Business History Review*), 2(3).

⁵For development of business by Japanese trading companies, see Yamazaki, H. (1987). *Nihon shosha-shi no ronri (The logic of the history of Japanese trading companies)*. In The University of Tokyo, Shakaigaku kenkyu (*Journal of Social Science*), 39(4).

⁶See Tatsuki, M. (1995). *Kogyoka to shosha, kaiun, kinyu (Industrialization and trading company, marine transport, and finance)*. In M. Miyamoto, & T. Abe (Eds.), *Nihon keieishi 2: Keiei kakushin to kogyoka (Japanese business history 2: Management innovation and industrialization)*. Tokyo: Iwanami Shoten Publishers.

Unique Conditions That Made Japan the First Case of Successful Industrialization Among Latecomer Nations

What were the unique conditions that enabled Japan to achieve industrialization ahead of other late developers? As just noted, Japan's achievement can be explained by the fact that "economic development was not necessarily government-led; instead, government and private enterprises complemented each other."

How, then, did Japan's private sector manage to be more active than those in other less developed countries? By effectively utilizing scarce resources such as human and financial capital. To summarize:

1. In terms of human capital, owner-managers enabled salaried managers to play an active role, with educational support of investor-managers.
2. In terms of financial capital, salaried managers used owner-managers' financial resources to pursue industrialization, along with investor-managers mobilizing funds from the public at an early stage among the public through joint-stock companies.

Interplay Among the Three Types of Managers

The case studies in the second half of Part I illustrate that as the scale of business grew, and diversification progressed, owner-managers could no longer carry out business management on their own and needed the assistance of salaried managers. A typical example: the active appointment of salaried managers by Yataro and Yanosuke Iwasaki, who formed the Mitsubishi zaibatsu, becoming active promoters of industrialization. Moreover, some owner-managers (e.g., Soichiro Asano and Ichibei Furukawa) without sufficient fund-raising capacity established joint stock companies or used bank loans at an early stage, relying on investor-managers such as Eiichi Shibusawa, the president of Dai-Ichi Bank. The latter also educated businessmen and helped establish and develop many institutions of higher learning. For instance, graduates of Tokyo Higher Commercial School joined many large corporations, including Mitsui & Co., thriving as salaried managers.

In addition, owner-managers sometimes complemented their lack of management resources through mutual alliances such as that between Zenjiro Yasuda, who formed a financial zaibatsu, and Soichiro Asano, who built an industrial zaibatsu.

In sum, by working together in several ways the three types of businessmen—owner-managers, salaried managers, and investor-managers—demonstrably pushed Japan's industrialization process forward.

Early Take-Off as the Outcome of Breakthrough Innovations

The first of the three questions presented in the Introduction was: “How did the Japanese economy manage to take off so early and establish a trajectory of growth?” In the closing of Part I, which covers the Edo period to the post Russo-Japanese War period, the answer emerges: “Japan’s early take-off was the outcome of breakthrough innovations.”

As seen earlier, Zen’emon Konoike, Takatoshi Mitsui, and Genzaemon Nakai developed innovative business models during the Edo period. Though their business innovations might not necessarily be considered breakthrough innovations when evaluated from a global perspective, given that Japan was cut off at the time from the rest of the world by its isolationist policy, Japanese innovation can be considered *sui generis*. Thus, it is fair to say that these leaders were among the world’s first breakthrough innovators.

Their success, in turn, highlighted the “novelties” of the Edo period—a feudal society with a well-developed market economy whose pre-industrial “novelties” served as an important prerequisite for the Japanese economy’s early takeoff, a period represented by six innovative businessmen: Hikojiro Nakamigawa, a salaried manager; Yataro Iwasaki, Yanosuke Iwasaki, Zenjiro Yasuda, and Soichiro Asano, owner-managers; and Eiichi Shibusawa, an investor-manager—all active from the late Edo period to the post-Russo-Japanese War period.

True, many of their aforementioned business innovations cannot be called “world’s firsts,” but rather were incremental innovations. However, the unique system of their mutually facilitative collaboration became the driving force turning Japan into the first industrialized nation outside of Europe and the United States. In this sense, the entrepreneurs discussed in the latter half of Part I can be regarded as the embodiment of breakthrough innovations of historical, global significance, contributing to the world’s “first latecomer industrialization”—truly an “Era of Breakthrough Innovations.”

With the individual breakthrough innovations of the Edo period as a prerequisite, the comprehensive breakthrough innovations of the period from the opening of ports at the end of the Edo period to the end of the Russo-Japanese War directly triggered the first industrialization in Japan among the least developed countries. This is why we called the period of Part I the “Era of Breakthrough Innovation”.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Part II
The Era of Incremental Innovation

Overview 3: World War I to the 1980s



Abstract This section reviews the long period of steady economic growth resulting from Japan’s incremental innovation system based on Japanese styles of management. Cases of several Japanese entrepreneurs are analyzed, each with a different approach to innovation.

World War I and Economic Turmoil

This section covers the period from World War I to the 1980s, when the Japanese economy enjoyed a prolonged period of relatively high growth by global standards. Ten case studies are presented, examining fourteen innovative entrepreneurs who made primarily incremental innovations as well as actual breakthroughs.

Japan’s industrial revolution reached completion just after the Russo-Japanese War (1904–1905), with the prolonged postwar depression beginning in 1907 (Meiji 40). Despite the “intermediate economic boom” around 1910, spurred by hydroelectric expansion in the electric power sector, the broader Japanese economy turned sluggish. As the balance-of-payments crisis worsened, Japan’s economy came to a standstill.

World War I, from 1914 to 1918 (Taisho 3–7), changed all this. Although Japan joined the Allied powers (the U.K., France, and Russia), because of geographical distance from the war zone, the Japanese referred to World War I as the “Great War in Europe.” Exports grew rapidly. Japan supplied munitions and foodstuffs to the Allied countries in Europe, increased exports to Asian countries with emerging business opportunities left by the withdrawal of European powers, and exported raw silk to the U.S., which was experiencing an economic boom. Japan was able to improve its balance of payments after achieving mild success in domestic production of heavy and chemical industrial products previously supplied by Europe.

When reconstruction demand arose during and immediately after World War I, in 1919, Japan’s economic growth rate surged to an unprecedented level, leading to the “World War I boom” and “postwar boom.” Of note, the gold standard ceased to function globally due to World War I; Japan also prohibited gold exports in 1917 and left the gold standard.

These booms did not last long, however, as they were a result of temporary increase in demand spurred by wartime and postwar reconstruction. The situation turned darker in the wake of the 1920 recession, with the Japanese economy entering a period dubbed “chronic recession”—experiencing not only recession, but also a series of further setbacks: the Great Kanto Earthquake of 1923, the financial crisis of 1927 (Showa 2), and the Showa Depression of 1929–1931.

As Japan’s balance of payments worsened once again, only in January 1930 did it finally return to the gold standard with Finance Minister Junnosuke Inoue’s decisive lifting of the gold export ban and implementation of austerity measures (the so-called “gold release”) during the Showa Depression.

The Showa Depression, connected to the Great Depression that began in 1929 in the U.S., was the worst economic recession in Japan’s modern history, with the country’s nominal gross national product posting a substantial contraction in 1930–1931.

The Japanese Economy Gets on a Long-Term Growth Track

Nevertheless, from a global perspective, Japan’s economic growth during the “chronic recession” of the 1920s was comparatively not all that bad. Its average economic growth from the 1910s to the 1920s, both in gross and per capita value, was slightly higher than that of the U.S, which was then the leader of global economic development.¹ This relative strength in comparison to the global average, even as Japan was entering a recessionary phase, can be attributed to expansion of the domestic market, brought about by increasing urbanization and electrification during this period.

In the evaluation of historian Ryoichi Miwa, “the scale of the Japanese economy moved to a higher level after World War I.” He adds, “In the 1920s, Japan began its shift toward a mass consumer society while changing its consumption habits toward those of Europe.²” This trend beginning in the 1920s—with Japan’s economic growth rate exceeding those of the U.S., U.K., and Germany—continued for a long period, with a brief interruption around World War II. The trend continued until reaching a halt in the 1990s.³

¹See Ando, Y. (1975). *Kindai Nihon keizaishi yoran dainihan (The second edition of an outline of the economic history of modern Japan)* (p. 24). Tokyo: University of Tokyo Press.

²Miwa, R. (1993). *Op. cit., An outline of Japanese modern economic history* (p. 100).

³*Op. cit.* Ando, Y. (1975), p. 24.

The Years Leading to World War II

Pre-World War II Japan emerged from the Great Depression (Showa Depression) ahead of other developed Western countries. Its economic recovery was spurred by the reimposition of a ban on gold exports in December 1931 by Prime Minister Tsuyoshi Inukai's administration, a move that pulled Japan away from the gold standard and toward a managed currency system.

Under the managed currency system, Finance Minister Korekiyo Takahashi's economic policies focused on creation of effective demand, successfully stimulating economic recovery. (These policies highlighting demand were later recognized as predecessors of John M. Keynes theory.) In addition, the depreciation of the yen that resulted from reimposition of the gold export ban, combined with the tariff revision of 1932, boosted exports and blocked imports. By the mid-1930s, Japan's heavy industry had achieved an "internal cyclical expansion of production,"⁴ driven by lessened import pressure.

The Second World War (1939–1945) cast a heavy shadow over the Japanese economy. During the war, Japan's economy was subjected to state control, with freedom of business activity severely curtailed. Economic controls began with the enactment of the 1938 National Mobilization Law and continued even after the war until about 1952, the end of Occupation.

With defeat in August 1945, Japan lost its overseas colonies of Korea, Taiwan, and South Sakhalin. In addition, major Japanese cities had been reduced to rubble by U.S. air raids. For some time after the war's end, life in Japan was precarious, evidenced by severe food shortages. During this period Japan was under occupation of the Allied Powers, led by the United States. The economic reforms implemented under the Allied occupation, such as dismantling of zaibatsu, prohibition of monopolies, labor reform (establishment of labor rights), and farmland reform, had a major impact on Japan's economy and on Japanese companies.

The reforms, however, turned out to be important prerequisites for the growth of Japan's postwar companies. Occupation era reforms led to the advancement of salaried managers and the rejuvenation of management in general with labor unions securing a solid legal basis, and discrimination based on status between office and factory workers banned. The reforms also marked the beginning of fierce competition among oligopolies in major industries and expansion of the domestic market through growth of personal consumption.

The Allied Occupation of Japan ended in 1952. Japan's industrial production, real gross national product (GNP), and real personal consumption had already surpassed their prewar highs in 1951, while real per capita GNP and real per capita personal consumption bettered their prewar highs in 1953.

⁴See Hashimoto, J. (1984). *Daikyokoki no Nihon shihonshugi (Japan's capitalism during the great depression)*. Tokyo: University of Tokyo Press.

From High Growth to Stable Growth

As just noted, the Japanese economy returned to pre-World War II levels in both production and consumption between 1951 and 1953. Henceforth, from the mid-1950s to the early 1970s it enjoyed a period of rapid growth unprecedented in world history. The average annual nominal economic growth rate for the 15-year period (1956–1970) was 6.2% in the U.S. and 10.3% in West Germany; and between 1956 and 1969 it was 7.2% in France, 8.1% in the U.K., 9.4% in Italy—but in Japan it reached 15.1%! In terms of real GNP, the Japanese economy grew at an annual rate of 10.4% over those 15 years, with the economy expanding 440%.⁵

Japan's major industries strengthened their global competitive edge in the mid-1960s at the height of the country's rapid economic growth. This growing strength resulted from the transition to an open economy through trade and capital liberalization. Movement to an open economy was also accompanied by growing Japanese concerns over the threat posed by foreign goods and capital, and sometimes termed "the second arrival of the Black Ship [Commodore Matthew C. Perry]." Despite such concerns, however, through large-scale investments and concerted labor-management efforts united by a sense of crisis, Japanese labor productivity rose at a rate surpassing that of advanced Western countries, strengthening Japanese corporate competitiveness. As a result, Japan's balance of trade, in deficit for almost the entire postwar period, turned to surplus in 1964.

Japan's high growth rate came to an end during the first oil crisis of 1973–1974. However, even after the crisis, Japan's economic growth, although slower than in earlier periods, remained higher through the 1980s than that of advanced Western countries.⁶ Thus, Japan's economic growth from the mid-1970s to the end of the 1980s is better seen as "stable" rather than "slow."

The economy achieved stable growth even after the first oil crisis because Japanese companies, supported by good labor-management relations and amicable inter-company relations, effectively: (1) developed management strategies based on a long-term perspective; (2) developed products that met market needs such as energy conservation; and (3) thoroughly streamlined and upgraded production processes. As a result, when the pace of economic growth declined internationally in the post-oil crisis period, global attention to Japanese companies increased rapidly. The phrase "Japan as number one" began to gain currency⁷ in the context of Japanese companies successfully overcoming the oil crisis.

⁵See Kikkawa, T. (2007). *Keizai seicho to Nihon-gata kigyokeiei: Kodo seicho kara nijuisseikishoto madeno kigyō keiei (Economic growth and Japanese-style corporate management: Corporate management from rapid growth to the early 21st century)*. In *op.cit.*, M. Miyamoto, T. Abe, M. Udagawa, M. Sawai, & T. Kikkawa (Eds.). *The new edition of Japanese business history: From the Edo period to the 21st century* (pp. 297–298).

⁶*Ibid.*, pp. 300–303.

⁷An example is Vogel, E. F. (1979). *Japan as number one: Lessons for America*. Cambridge, MA: Harvard University Press.

Incremental Technological Innovation and “Japanese Style Management”

As the era of rapid economic growth ended, the idea that corporations belonged to their employees was taking hold in major Japanese companies. Employee power was implemented through a mechanism to achieve incremental (cumulative and continuous) technological innovation from the production floor, supported by cooperative labor-management relations. This system was the fruit of so-called Japanese-style management that “aims to maximize employee profits based on cooperative labor-management relations.”

From the mid-1950s through the 1980s Japanese managers implementing Japanese-style management repeatedly made growth-oriented decisions, helping the economy achieve relatively high growth compared to other economies. Companies achieved long-term growth, leading to a continuous rise in stock prices and improved working conditions, thereby successfully aligning shareholder and employee interests.

Part II covers a lengthy period. The innovative entrepreneurs presented include diverse leaders in urbanization and electrification (Ichizo Kobayashi and Yasuzaemon Matsunaga), exceptional breakthrough innovators (Saburotsuke Suzuki II and Kiichiro Toyoda), those who attempted overseas expansion before World War II (Shitagau Noguchi, Yoshisuke Aikawa, and Sazo Idemitsu), others who led the rapid economic growth (Yataro Nishiyama and Konosuke Matsushita), challengers to the global market in the postwar period (Masaru Ibuka, Akio Morita, Soichiro Honda, and Takeo Fujisawa), and one who warned of an upcoming dark era (Toshio Doko).

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 8 Ichizo Kobayashi: A Leader in Urbanization Creates a New Industry



Abstract This chapter introduces Ichizo Kobayashi, a leader in urbanization and manager of Hankyu Railway, who not only managed the company but also developed suburban residential areas along the railway line and developed the Yurakucho entertainment district by establishing Toho Cinemas.

Urbanization and Electrification Pave the Way for a Mass Consumer Society

As seen, World War I drastically altered the Japanese economy. The biggest change was rapid progress in urbanization and electrification, improving the standard of living and giving rise to a mass consumer society—a growth track ultimately leading to prosperity fully realized after World War II.

The leaders in that transition were Ichizo Kobayashi in urbanization¹ and Yasuzaemon Matsunaga in electrification. Kobayashi, the manager of Hankyu Railway, not only managed the company but also pioneered a new field of urban, tertiary industry by developing suburban residential areas along the railway line; opening department stores at rail terminals; founding the Takarazuka Revue and developing the Yurakucho entertainment district by establishing Toho Cinemas. Matsunaga, who practiced scientific electric power management at Kyushu Electric Railway and Toho Electric Power Company, played a leading role in the creation of Japan's postwar electricity system with nine major electric power companies featuring private ownership and management. Matsunaga was dubbed the “demon of electric power.”

¹For details concerning Kobayashi Ichizo, see Oikawa, Y. (2017). *Nihon no kigyoka 5: Kobayashi Ichizo, toshigata daisanji sangyo no senkuteki sozoshu (Japanese entrepreneur 5: Ichizo Kobayashi, Pioneering creator of urban-type tertiary industry)*. Kyoto: PHP Institute, Inc.

Housing Shortages in Osaka

Ichizo Kobayashi was born in the town of Nirasaki, Yamanashi Prefecture, in 1873 (Meiji 6). After graduating from Keio Gijuku, Kobayashi joined Mitsui Bank in 1893. He was among those Keio graduates recruited by Hikojiro Nakamigawa to join the Mitsui family business, becoming one of prewar Japan's leading salaried managers.

After leaving Mitsui Bank in 1907, Ichizo became involved in the establishment of the Minoh-Arima Electric Railway (later known as Hankyu Railway) near Osaka. Urbanization is a business opportunity, first manifesting itself in the electric railway and real estate business (suburban commercial and residential housing). He became a leader of urbanization by linking the two businesses.

Two examples of such interconnectivity come to mind: first, Ichizo's sale of housing land in the Ikeda-Muromachi residential area along the Minoh-Arima Electric Railway line; second, development of Tamagawadai (Denenchofu) by Denen Toshi Co. that later merged with Meguro-Kamata Electric Railway.

A notable time gap is evident between these two cases of real estate development. Whereas the Ikeda-Muromachi residential area was first put up for sale in 1910, the Denen Toshi Co. was established only in 1918 (Taisho 7). Understanding the origins of a railway company's involvement in the real estate business, then, entails first studying the case of the Ikeda-Muromachi residential area in Osaka: "In contrast to the relatively small land area of Osaka City, the city's enormous expansion and the large number of towns and villages in the suburbs led to the early development of suburban transportation systems. Osaka City's suburban housing was perhaps the earliest to develop in Japan²—even more than in Tokyo suburbs during the late Meiji to the early Taisho era.

Osaka's population increased rapidly after the Russo-Japanese War,³ with the rate of increase comparable to that of Tokyo from 1912 to 1917.⁴ As of 1916, however, Osaka, with about two-thirds the population of Tokyo, had less than half its land area. The number of housing units and population per 1000 tsubo (1 tsubo = about 3.3 square meters) of residential land in Osaka (5137 units, 24,384 persons) was higher than those in Tokyo (4833 units, 18,321 persons).⁵ A November 1918 newspaper article illustrates this point: "Generally speaking, rents are much higher

²Toshi-seikatsu no fuan (16) Osaka-shi no jyutaku mondai (*Anxiety in urban life (16): Housing issues in Osaka City*). *Osaka jiji shinpo* (*Osaka daily newspaper*), February 3, 1919.

³See Nankaido General Research Institute (Ed.) (1985). *Nankai ensen hyakunen-shi (One hundred-year history of Area along Nankai Electric Railway)* (p. 121). Nankai Electric Railway Corporation.

⁴From 1912 to 1917, the population in Tokyo increased 1.169-fold from 2,009,980 to 2,349,830, and the population of Osaka 1.170-fold from 1,331,994 to 1,557,986. Toshi-seikatsu no fuan (2) Osaka-shi no jyutaku mondai (*Anxiety in urban life (2): Housing issues in Osaka City*). *Osaka jiji shinpo* (*Osaka daily newspaper*), January 21, 1919.

⁵See Toshi-seikatsu no fuan (4) Osaka-shi no jyutaku mondai (*Anxiety in urban life (4): Housing issues in Osaka City*). *Osaka jiji shinpo* (*Osaka daily newspaper*), January 23, 1919.

in Osaka than in Tokyo. Perhaps Osaka and Kobe are unmatched in the country in terms of high rents.⁶

From October 30 to November 5, 1918, the Osaka Mainichi Shimbun (Osaka daily newspaper) published a series titled “Osaka in Housing Crisis (1)–(5),” with the following subheadings:

(1)

No houses available for rent in Osaka

The number of vacant houses in the entire city is less than 400

Even worse, the only available ones are uninhabitable shabby houses

New construction of merely 1000 or 2000 units will not solve the problem

Rents are skyrocketing

(2)

Price increase of 10–50% in the Chikko area

Other wards show a similar trend

(3)

The high cost of rent in Osaka is unmatched in the country

The tyranny of housing feudalism

The small tenants are suffering most

(4)

Rent at the outskirts is absurdly high

The landlords’ personalities are different between the outskirts and the [central] senba district

(5)

Housing difficulties for low-wage workers

Need for public housing, charitable organizations, and public building associations

Urgent need to install rapid transit trains

Interestingly, the newspaper article concluded: “Citizens will not be spared the misery of housing shortages unless high-speed transportation is established to quickly and inexpensively transport them from the urban center to the relatively remote suburbs,” and emphasized the “urgent need for installation of a high-speed railway.”⁷ Clearly, Osaka City’s severe housing shortage fueled demand for new housing in the surrounding suburbs, especially close to the electric railway lines.⁸

In contrast, demand for housing in Tokyo during the 1910s was basically confined to the areas along streetcar lines and provincial rail lines near the urban

⁶Jutakunan no Osaka (3) (*Osaka in Housing Crisis (3)*). *Osaka mainichi shimbun (Osaka daily newspaper)*, November 3, 1918.

⁷Jutakunan no Osaka (5) (*Osaka in Housing Crisis (5)*). *Osaka mainichi shimbun (Osaka daily newspaper)*, November 5, 1918.

⁸See Kogai-densha kara mita Osaka (7) (*Osaka viewed from suburban trains (7)*). *Osaka mainichi shimbun (Osaka daily newspaper)*, December 21, 1915.

center. It was not until after the Great Kanto Earthquake of 1923 that the demand for housing spilled over to suburban areas along private railway lines.⁹

Minoh-Arima Electric Railway Enters the Real Estate Business

The Minoh-Arima Electric Railway (MAER), led by managing director Ichizo Kobayashi, was the first case of real estate businesses run by electric railway companies in Japan. This railway company was founded in October 1907, changing its name to Hanshin Express Electric Railway (Hankyu Railway) in February 1918.

The establishment of MAER, with the right to build a railroad connecting Osaka (Umeda), Minoh, Arima, Takarazuka, and Nishinomiya, was thought problematic. There was difficulty in underwriting securities owing to the post-Russo-Japanese recession and a low number of expected passengers given the small population along the rail line. To overcome these challenges, Ichizo Kobayashi, assigned to manage the company, deemed it necessary to combine the railroad business with the housing business along the railroad line. According to Kobayashi's autobiography, "Itsuo Jijoden" (Itsuo=Kobayashi's pen name, Jijoden=autobiography) (Sangyo Keizai Shimibun, 1953), his thoughts on the establishment of MAER were as follows:

I just know that it will work out – This company is difficult to set up and has zero credibility. It is expected that the company will be dissolved sooner or later. Even if you manage to devise a way to set up a company, you will be ridiculed by the public along the way as if it will not work in the end. Fortunately, there are many ideal residential areas along the railway line – if one were to buy the most suitable land along the railway line for one yen per tsubo, and one were to buy 500,000 tsubo, one would earn a profit of 2.50 yen per tsubo after opening for business, and one would earn 125,000 yen by selling 50,000 tsubo every six months. Of course, I do not know whether 50,000 tsubo will sell or not, but I think it will be worth about 5 yen per tsubo once the train line opens. I think it would be a good idea to consider such a side business from the onset, to reassure shareholders if the rail business does not pan out (pp. 151–152).

When Ichizo Kobayashi was elected as the managing director of MAER at the company's inaugural meeting in October 1907, he immediately put the above ideas into action. In a pamphlet entitled "The Most Promising Train" distributed by MAER in October 1908 prior to the railway line's opening, Kobayashi wrote: "The land to be owned by the company is about 200,000 tsubo in an area with a suitable climate and superb scenery, only 15 to 20 minutes away from Umeda (center of Osaka). The idea is to set up stations here and develop the land to increase the

⁹See Toshi no bocho to kogai dentetsu (1)~(10) (*The expansion of cities and suburban railway lines (1) to (10)*). Kokumin shimbun (*National newspaper*), October 1 to 13, 1926. Also, Tokyu Land Corporation, Machizukuri 50 nen [50 Years of Urban Planning]. Tokyo: Tokyu Land Corporation, pp. 30–31.

number of passengers along the route, and to profit from the land at the same time.¹⁰ In addition, a pamphlet titled “What kind of land should you choose and what kind of house should you live in? (a guide to residential areas)” published by the company in the fall of 1909, also before the opening of the railway line, includes the following passage:

The beautiful city of water [i.e. Osaka] has vanished as a dream of the past, and you, my unfortunate citizens of Osaka, live in a city of smoke and dark skies! You, who are aware of the [poor] sanitary conditions of the citizens, with a birth rate of 10 [per 1000] and a death rate of over 11, must be horrified by the discomfort of city life, while at the same time longing for the joys of suburban life, rich in pastimes of the countryside. The first requirement for suburban life is convenient transportation. Now that the trains in Osaka City have been opened in all directions, the existing Hanshin and Nankai lines, as well as the Keihan Minoh-Arima line, connect the inside and outside of the city from the east, west, south, and north, and each line has its own special characteristics along its route to satisfy your wishes. At this time, we believe that it is the duty of the Minoh-Arima Railway Company to showcase the scenic homes along its route and present you with a question: “What kind of land should I choose?” We are the only company among all the electric railway companies that owns land in the most suitable location [...] The land owned by the company is more than 86 cho [1 cho is roughly a hectare], and if the price is just over 300,000 yen (excluding the city area), the average price per tan [roughly 100 sq. meters] is only a little over 360 yen per tan.¹¹ If we were to measure this, it would amount to just over 300,000 tsubo, and this area of more than 300,000 tsubo should be left to your choice as an ideal new residential area for suburban life, and it waits for you to move in to turn it into a great paradise. You can see the moon’s shadow in the treetops, and hear plovers calling their friends in the foamy waves off the coast. Therefore, the company will also actively operate a model new residential area, and would like to greatly appeal to the tastes of the citizens of Osaka.¹²

In other words, MAER had acquired a total of approximately 200,000 tsubo of land for residential development along the railroad route by October 1908, and a cumulative total of over 300,000 tsubo by the fall of 1909, before launching the railroad in March 1910.

In June 1910, 3 months after the start of the railway’s operation, the MAER began selling the Ikeda-Muromachi area as the first residential sale of land along the railroad line; the results were favorable.¹³ For this area (total area: 33,020 tsubo), the company established “dozens of streets going north, south, east, and west,” and adopted the format of “one residence, each with a floor space of 20 tsubo or less, is to

¹⁰Quoted from Kobayashi, I. (1953). *Itsuo jijoden (An autobiography of Itsuo)* (p. 185). Tokyo: Sankei Shimbun Co., Ltd.

¹¹One tan is one-tenth of a cho, equivalent to 360 tsubo (according to the conversion of that time). One tsubo equals almost 3.3 square meters.

¹²Quoted from *op. cit.*, Kobayashi, I. (1953), pp. 189–190.

¹³See Keihanshin Express Electric Railway (1959). *Keihanshinkyukodentetsu gojunenshi (The fifty-year history of Keihanshin Express Electric Railway)*. (p. 10). Osaka: Keihanshin Express Electric Railway.

be built within a lot space of 100 tsubo, and two hundred houses of several dozen types are to be built.¹⁴

Each house was to have “a large garden,” “electric lighting,” and “adequate sanitary facilities such as ditches and sewers,” while the whole residential area was to have “complete streets with trees planted on both sides” and “a company-operated purchasing cooperative to ensure a low-cost supply of goods.” Also, “A new club was to be built as an entertainment facility, complete with a pool [billiard] hall and other facilities,” “parks and flower gardens were to be established to promote the hobby of horticulture and bonsai, and daily necessities such as barber-shops and western-style laundry were to be provided.¹⁵” The sales price per unit in the Ikeda-Muromachi residential area was 2500 yen (including land, house, garden, and facilities), and “the method of sale was an upfront down payment of 50 yen, followed by monthly installments of 24 yen per month for 10 years”.¹⁶

Following the Ikeda-Muromachi residential area, MAER sold the Sakurai residential area (total space: 55,000 tsubo) in June 1911 and the Toyonaka residential area (total space: 50,000 tsubo), also located along the railway line, in August 1914.¹⁷ Thereafter, the company continued to actively promote the sale of residential land along the railway line.

Parenthetically, did Minoh-Arima Electric Railway’s residential land sales generate the kind of profit that Ichizo Kobayashi expected? Regarding the acquisition of land, Kobayashi himself recounts in “Itsuo Jijoden” (Autobiography of Itsuo) that “The standard price for selecting land for residential business, comparable to the lifeblood of this company, was estimated at 1 yen per tsubo, and [. . .] the process went roughly according to budget” (p. 175). This point is consistent with the statement in a MAER pamphlet published in 1909 entitled “What Kind of Land Should You Choose and What Kind of House Should You Live in?” stating that over 300,000 tsubo of land was purchased for over 300,000 yen. On the other hand, there is no reliable historical record that tells how much MAER earned per tsubo from the sale of residential land. However, a newspaper article from September 1913 points out that it was around 2 yen per tsubo.¹⁸ Although unconfirmed, it seems that MAER succeeded in making a profit close to the 2.5 yen per tsubo level Kobayashi initially aimed for through the sale of houses in the early stages of its business. Even though it did not fully reach his target, this success was due to Kobayashi’s purchase of land along the railroad line at a low price prior to the opening of the railroad. In other words, he had already factored in the spillover effect that would materialize over time.

¹⁴See Hanshin Express Electric Railway (1932), ‘Tochi jutaku keieino ganso’ ‘Hanshin Kyuko Dentetsu nijyuugonenshi’ (“The Origin of the Land and Housing Business Management,” in *The 25-year history of Hanshin Express Electric Railway*, Osaka: Hanshin Express Electric Railway, p.4.

¹⁵*Ibid.*, pp.3–4.

¹⁶*Op. cit.*, Keihanshin Express Electric Railway (1959), p. 120.

¹⁷*Op. cit.*, Hanshin Express Electric Railway (1932). ‘Nenpu’ (*Timeline*) pp. 4, 6.

¹⁸Osaka no kogai-densha (3) (*Suburban trains in Osaka (3)*). *Chuo Shimbun (Central newspaper)*, September 17, 1913.

Ichizo Kobayashi's Entrepreneurial Innovation

MAER became the pioneer in the real estate business among electric railway companies thanks to the entrepreneurial spirit of Ichizo Kobayashi, its senior managing director. He overcame shareholder opposition and pressed ahead with "housing management, the lifeblood of this company."

He devoted himself to managing MAER's residential area with two goals in mind:

1. Increasing the number of passengers by expanding the number of residents living along the railroad lines, thereby indirectly increasing the profit of the railroad business.
2. Factoring in the future spillover effects (by selling the land purchased at a low price before the opening of the railroad at a high price after the railroad opening), so that the company directly benefits from the residential real estate business itself.

Hanshin Electric Railway had already begun to implement the first goal in 1909, earlier than MAER, through its home rental business. However, home rental was unlikely to serve as strong motivation for a railroad company to enter real estate in earnest, since they would have no advantage over other real estate and housing companies starting business along the railway line. Therefore, the ground-breaking nature of Kobayashi's idea did not stem from Hanshin's pattern.

Rather, Kobayashi became a trailblazer because he was the first to address the second goal, spillover profit. Subsequently many electric railway companies built or extended lines following Kobayashi's approach, entering the real estate sector in earnest after factoring in spillover effects. Even in cases where no new railroad lines were built or extended, it was possible to create business opportunities by increasing the number of trains in operation, building new stations, operating express and limited express trains, creating new bus routes linked to trains, and connecting or interconnecting with other railway companies' lines. Based on these spillover effects, Japan's electric railway companies increased involvement in the real estate sector, leading to accelerated urbanization in the following years.

As part of such increased urbanization, the Takarazuka Shoka-tai, founded in 1913, developed into the Takarazuka Revue, and in 1932 Kobayashi founded the Tokyo Takarazuka Theater (later known as Toho). In 1927, he became president of Hankyu Railway, and in 1929, he opened Japan's first rail terminal department store, Hankyu Department Store, in Umeda, Osaka. In addition, as a pioneer in the new urban tertiary industry, Kobayashi assumed a series of key posts: President of Tokyo Electric Light in 1933, Minister of Commerce and Industry in the second Fumimaro Konoe Cabinet in 1940, and after World War II, Minister of State and President of the Sensai-Fukko-in (War Damage Restoration Agency) in the Cabinet of Kijuro Shidehara in 1945. Kobayashi passed away in January 1957.

Kobayashi Also Contributes to Electrification

Thanks to his managerial skills demonstrated at Hankyu Railway, Kobayashi was also called to serve Tokyo Electric Light where he was responsible for restructuring the company's management, serving as president from November 1933 to March 1940. In the process he became not only a leader in urbanization but also in electrification.

Among the measures he undertook were innovations in sales, displaying his ingenuity. A company history edited by Tokyo Electric Power—"The Kanto Region's Electric Utility Industry and Tokyo Electric Power—From the Inception of the Electric Utility Industry to the 50th Anniversary of Tokyo Electric Power" (2002)—provides a detailed description of sales innovations that he spearheaded (pp. 438–447):

1. Established 17 sales offices in Tokyo (December 1931). He "divided the sales offices jurisdictions into 'smaller areas, allowing the staff to give customers better service, like true businessmen'."
2. Initiated a cultivation campaign by inspiring a "businessman's spirit." "Specifically, to increase the number of lights, brightness, and especially the sale of electrical appliances, with the aim of 'increasing sales per kilowatt-hour'."
3. Improved customer service. The "hidden and true purpose" of selling heating equipment on the street as part of the demand cultivation campaign referred to earlier was "to foster and inspire a spirit of customer service among the staff."
4. Systematized a fee-related administration. "Unlike the previous 'spiral collection method,' in which the company collected fees on days when it was convenient, customers were charged by the same collector at approximately the same time on a fixed date. This instilled a sense of obligation in the company [clients], and the number of customers who paid on the fixed date gradually increased."

It is noteworthy that Kansai Electric Power's first president, Shiro Otagaki (president from May 1951 to November 1959), and its second president, Yoshishige Ashihara (president from November 1959 to November 1970), both hailed from Hankyu Railway and trained under the tutelage of Kobayashi. During the reign of presidents Otagaki and Ashihara, nine Japanese electric power companies (Hokkaido Electric Power, Tohoku Electric Power, Tokyo Electric Power, Chubu Electric Power, Hokuriku Electric Power, Kansai Electric Power, Chugoku Electric Power, Shikoku Electric Power, and Kyushu Electric Power) enjoyed a "golden age," providing a "stable and inexpensive supply of power. Kansai Electric Power stood out among the nine for its corporate vitality."¹⁹ The 1961 commissioning of the Kurobegawa No. 4 power plant, on which the Otagaki and Ashihara duo bet the company's future, symbolized such vitality. It introduced innovative management unique even among the nine electric power companies during their golden age. This case was an

¹⁹See Kikkawa, T. (2004a). *Nihon denyokugyo hatten no dainamizumu (The dynamic development of Japan's electric power business)* (pp. 287, 364). Nagoya: Nagoya University Press.

example of multiple top managers in the same human network passing down innovative DNA that advanced corporate management.

In “Fifty Years of Anxiety and Enjoyment: Yoshishige Ashihara’s Retrospection and Vision,” edited by Tsunehiko Yui (Japan Business History Institute, 1978), Ashihara recalls the three-way relationship between himself, Kobayashi, and Otagaki:

Mr Kobayashi taught me many things, but the most important thing was that in business and management it is not enough to look back, you must foresee a little further into the future. Unless you are willing to take risks and decisive action, your business will never prosper. Another thing is that above all else business management must be carried out sensibly. These two were the most important. (p. 31).

Apparently there was little disagreement in the Public Service Committee about making Mr. Otagaki the president of Kansai Electric Power. Nihon Hassoden²⁰ did recommend Mr. Ikeo,²¹ but his recommendation was not forceful, so the decision was easily made.

However, to tell the truth, we were unsure as to whether Mr. Otagaki would assume the post.²² So Mr. Matsunaga²³ and Mr. Hori²⁴ appealed to Mr. Ichizo Kobayashi. Mr. Otagaki himself said that if Mr. Kobayashi agreed that he should become president, then he would accept, and thus Mr. Otagaki was chosen, is what I’ve heard (p. 80).

The spirit of streamlining is one of the Kobayashi-isms. First, Mr. Otagaki told us not to store unnecessary items in the warehouse. He made us go through the warehouse and if we found anything useless, we had to dispose of it and exchange it for money, no matter how trivial it was. Also, since the collection rate for electricity fees was low, we were told to improve it somehow. In addition, there was a lot of electricity loss, so we were told to lower the loss, and since the thermal efficiency at thermal power plants was poor, we were told to improve the efficiency of the machines. He found various such problems, and since they were technological issues, he told Ashihara to deal with them (p. 92).

Responding to historian Tsunehiko Yui’s question, “I heard that Mr. Otagaki often talked about the importance of timing in decision-making?” Ashihara replied:

We always discussed important matters together, so we were on the same page in everything, but he told me, “Ashihara, no matter what you do, there is always risk, no matter how careful you are in your research and investigation. Therefore, if you have about 80% certainty and the risk is about 20%, the president is responsible for deciding.”... I guess that means managers have to make decisions at 80 percent certainty (p. 95).

Ashihara’s description shows that when both Otagaki and Ashihara took charge of Kansai Electric Power’s operations they applied their Hankyu Railway era mentor Kobayashi’s foundational thinking. This meant taking risks based on foresight and consistently taking a rational approach.

²⁰Reference to Nihon Hassoden, a major entity in the state management of electric power.

²¹Reference to Yoshizo Ikeo, second president of Nihon Hassoden, from January 1941 to August 1943.

²²Yoshishige Ashihara was vice-president of Kansai Haiden at the time.

²³Reference to Yasuzaemon Matsunaga, acting chairperson of the public utilities committee at the time.

²⁴Reference to Shin Hori, a former president of Kansai Haiden, who became chairperson of the board of directors at the same time as the establishment of the Kansai Electric Power Company.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 9 Yasuzaemon Matsunaga: Electrification Leader Establishes Private Sector-Led Public Utility Operations



Abstract This chapter introduces Yasuzaemon Matsunaga, who held top management positions at Kyushu Electric Light Railway and its predecessor companies, and then Toho Electric Power.

Encounter with the Electric Power Business

Just as Kobayashi was the undisputed champion of urbanization, Yasuzaemon Matsunaga was undoubtedly the standard-bearer of electrification.¹

Born in 1875 (Meiji 8) as the eldest son of a family running its own business in Iki Island, Nagasaki Prefecture, Matsunaga entered Keio Gijuku in 1889, where he met his lifelong ally and rival, Momosuke Fukuzawa (adopted son-in-law of Yukichi Fukuzawa). After a brief period as a salaried employee of the Bank of Japan, Matsunaga became a lumber merchant (Marusan Shokai) and a coal and coke merchant (Fukumatsu Shokai), both of which were joint ventures with Momosuke Fukuzawa.

Having established contacts in northern Kyushu through his handling of coal dust and coke, Matsunaga was asked to become the managing director of the Fukuhaku Electric Railway in Fukuoka City. This position focused his attention on electricity as a source of power. In 1910, he established Kyushu Electricity and became managing director of an electric power business. Meanwhile, Momosuke also became president of Fukuhaku Electric Railway and director of Kyushu Electricity. Thus, Matsunaga and Momosuke began to build their careers as electric power business managers almost simultaneously, like a pair in a three-legged race.

¹For details regarding Yasuzaemon Matsunaga, see: Kikkawa, T. (2004b). Matsunaga Yasuzaemon: Ikiteiru-uchi oni to iwaretemo (*Matsunaga Yasuzaemon called "Demon" while he was alive*). Kyoto: Minervashobo.

Practicing “Scientific Management”

Matsunaga’s career as an electric power business executive can be roughly divided into two phases: first, the period from 1908 to 1922 (Meiji 41—Taisho 11), when he held top management positions at Kyushu Electric Light Railway and its predecessor companies (Kyushu Electric Light Railway was formed when Hakata Electric Railway—formerly, Fukuhaku Electric Railway—and Kyushu Electricity merged in 1912); and second, the period from 1922 to 1942 (Taisho 11—Showa 17) when he served in top management of Toho Electric Power. Matsunaga’s approach to running the electric power business was outstanding in three respects: his emphasis on customers; his development of power sources using hydro and thermal power; and his innovation in financing.

In emphasizing customers, Matsunaga consistently adopted low-rate, high-quality service to cultivate new clients. During his tenure at Kyushu Electric Light Railway, he drastically reduced electric light fees and removed a restrictive clause in the supply rule that said “no [power line] extension will be granted unless at least 30 lights are to be set up per 1 electricity pole.” Removal of this stipulation meant that electricity could be supplied even to remote areas.

Matsunaga’s fostering of a customer base eventually led to improved performance by Kyushu Electric Railway and was a major force in the company’s rise to dominance in northern Kyushu’s electric power sector. Matsunaga’s emphasis on customers remained unchanged during his time at Toho Electric Power. By the time he took over the management of Kansai Electric, the predecessor of Toho Electric Power, frequent power outages during the days of Nagoya Electric Light Company (the predecessor of Kansai Electricity) were causing dissatisfaction among Nagoya residents. Matsunaga took emergency measures such as automatic disconnection from main power lines, reinforcement of repair teams, establishment of temporary substations, and buying more electricity. He even brought his own bed to the central feeder station to be there around the clock, resolving the outage problem in about a year.

After the company [Kansai Electricity] was reestablished as Toho Electric Power, Matsunaga continued to improve the facilities by increasing the voltage of the transmission lines, improving the feeder lines, laying special high-voltage transmission lines, and building new power plants. As a result, Toho Electric Power regained Nagoya residents’ trust within a few years of its establishment.

The policy of developing hydro as well as thermal power sources contributed greatly to lowering the cost of power generation.

The waterway-style, hydro power generation system adopted by many electric power companies of the time was fundamentally flawed. In winter, when demand for electricity rose, water was in insufficient supply, while in summer season, when demand declined, there was an overabundance of water. Therefore, according to Matsunaga, “If hydroelectric facilities are designed for maximum load in winter, the

surplus power will increase in summer.²” However, “in order to develop hydro power generation in the most economical manner, other methods must be devised to compensate for the shortage of power generation capacity due to reduced water flow [during the winter].³” Matsunaga advocated the adoption of a combined hydro and thermal system that would utilize cheaply built thermal power plants as backup.

As mentioned above, the merger of Hakata Electric Light Railway and Kyushu Electricity brought about the establishment of Kyushu Electric Light Railway; Matsunaga played a leading role in achieving this merger. He envisioned the integration of Hakata Electric Light Railway, whose electricity division focused on thermal power generation, and of Kyushu Electricity that was focused on hydro-electric power generation. The integration established a combined hydro and thermal power supply system, thereby lowering the cost of power generation.

The combined use of hydro and thermal power generation advocated by Matsunaga was put into full practice when Toho Electric Power built the Nagoya Thermal Power Station, Najima Thermal Power Station, and Maeda Thermal Power Station. Such construction was daring at a time when mainstream thinking held that “hydropower is the panacea” and “thermal power puts the country in peril.” When the economic efficiency of the combined use of hydro and thermal power was confirmed, industry-wide adoption began—long after Matsunaga first advocated the method.



Yasuzaemon Matsunaga when he was president of Toho Electric Power in 1933. (Provided by Mainichi Shimbun)

Innovations in financing were also highly relevant to cost reduction. Matsunaga pointed out that “highs and lows of interest rates do affect the cost of electricity.⁴”

²Matsunaga, Y. (1933). *Denkijigyo tosei ni tuite (Regarding the control of the electric power business)*. *Denki koron (Public opinion on electric power)*, 17(10).

³Matsunaga, Y. (1927). *Denkijigyo (Electric power business)*. *Shakaikeizai-taikei daikyukan (Social and economic systems, vol.9)*. Tokyo: Nihon Hyoron Sha Co., Ltd.

⁴Toho Electric Power Co., Ltd. History Compilation Committee (Eds.) (1962). *Tohodenryoku-shi (The History of Toho Electric Power Co., Ltd.)*. Tokyo: The Publishing Association of the History of Toho Electric Power Co., Ltd.

Instead he focused on developing stable, low interest sources of financing. Toho Electric Power's actions, such as its aggressive issuance of foreign bonds and quick response to the yen's decline after 1932, its campaign to expand the maximum bond issuance limit, and its utilization of a new collateral system (open-end mortgage system) at the issuance of bonds, reflected Matsunaga's ingenious approach to financing.

Toho Electric Power's electricity generation costs declined more than those of its peers thanks to combined use of hydro and thermal power and to innovative financing. For instance, the equipment cost per 1 kW in a given sales area around 1931 was only 792 yen for Toho Electric Power, compared with 884 yen for Tokyo Electric Light.⁵ Contemporary economic magazines praised Matsunaga's management skills, calling it "scientific management." Matsunaga became one of the most prominent managers in prewar Japan's electric power industry.

Matsunaga's Foresight in "Personal Opinion on Electric Power Regulation"

In the Japanese electric power industry of the 1920s, the so-called power war—a battle for large customers in major cities—intensified, with debates over regulating power companies rapidly becoming a social issue. Here, too, Matsunaga demonstrated foresight setting him apart from other business leaders. In "Personal Opinion on Electric Power Regulation" published in 1928, he foresaw the 1951 reorganization of the electric utility industry 23 years in advance, and clearly displayed his visionary ideas.

In a Nikkei newspaper column published after the war, Matsunaga recalled his 1928 proposal that "The entire country should be divided into nine regions, and a one-area, one-company system should be adopted. Small companies should be combined if possible and if not, they should be pooled and allowed to monopolize supply areas. Public and government thermal facilities, such as many owned by the Ministry of Railways, should be transferred to the private sector to improve the load and dispersal rates of electricity nationwide, and rates should be based on a license system. A "Public Utilities Commission" should be established as an oversight body."⁶ Matsunaga pointed out that his suggestions from 23 years earlier were "almost equivalent to the post-war reorganization which resulted in the current status quo."

Why was Matsunaga the only one of the many managers in the electric power industry to show such foresight concerning control of electric power? The answer

⁵See Abe, R. (1931). *Godai denryoku no yuretsu (The superiority and inferiority of five major electric power companies)*. Tokyo: Diamond, Inc.

⁶See Matsunaga, Y. (1964). *Watashi no ririkisho 27 (My résumé 27)* in *Nihon keizai shimbun (The Nikkei)*, 28 January.

lies in Matsunaga's valuing of research and its implications. Momosuke Fukuzawa, his lifelong friend and rival, said, "I am no slouch when it comes to research, but Matsunaga's thoroughness is so impressive that I would completely surrender."⁷ Matsunaga sent a total of 42 Toho Electric Power employees (including directors) overseas for observation and practical training, establishing a Research Department as a permanent in-house unit.

Although these measures were unprecedented for an electric power company at the time, the information that overseas employees obtained from Western countries, and the findings from a series of studies carried out by the Research Department, shaped Matsunaga's argument for regulation of the electric power industry. Unlike Matsunaga, Fukuzawa prioritized hydro power development, advocating nationalization of the electric power industry and separating electric power generation/transmission from electric power distribution. Fukuzawa's concept of electric power industry regulation called for government management, separation of power generation/transmission and distribution, and hydro-centered development. It was implemented as the wartime government's policy on electric power. On the other hand, Matsunaga's concept of private sector-led management, integrated management of power generation/transmission and distribution, and combined hydro and thermal systems, became the basis for postwar reorganization of the electric power industry.

In other words, Fukuzawa and Matsunaga foresaw two major epochs in the history of the Japanese electric power industry—state control over the electric power industry and its subsequent reorganization—long before they happened, earning Fukuzawa the title of "King of Electricity" and Matsunaga the "Demon of Electric Power."

Retrospectively, however, Fukuzawa achieved success in hydropower development centering on the Kiso River system (called the "Electricity King" in recognition of this), but was unsuccessful in the electric power distribution business where service to customers was the key. Matsunaga had no choice but to help with the restructuring of Kansai Electric, the predecessor of Toho Electric Power, given that Fukuzawa, as president of Nagoya Electric Light (the predecessor of Kansai Electricity) had poorly managed the power distribution business and drawn the ire of Nagoya residents, requiring Matsunaga to rectify the situation.

⁷Matsushima, H. (1980.) Matsunaga Yasuzaemon min'ei jigyo hitosujini ikita denryoku keieisha (*Yasuzaemon Matsunaga: An electric power manager who devoted his life to private enterprise*). In K. Shimokawa, A. Sakaguchi, H. Matsushima, Y. Katsura, & H. Omori (Eds.). *Nihon no kigyoka 4: Sengo-hen (Japanese entrepreneurs 4: The postwar edition)* (p. 113). Tokyo: Yuhikaku Publishing Co., Ltd.

The Japanese Government Imposes Controls over the Electric Power Industry

Although Matsunaga's concept of regulating the electric power industry showed foresight, the Japanese electric power industry did not follow a straight path to reorganization in line with Matsunaga's 1928 "Opinion" publication, but rather took a "long detour"⁸ under government control. State control of the electric power industry was unsuccessful in the following areas:

1. It shut down the creative efforts of power industry managers and the vitality of private power companies.
2. A centralized system of mostly hydroelectric power generation and transmission led to problems with power supply stability and generation costs.
3. It led to complete separation of the generation/transmission business from the distribution business.

Despite these weaknesses, state control was enforced due to the rise of nationalist ideology and other factors outside the economy. It is also true, however, that voluntary regulation by the electric power industry in the 1930s had unmistakable drawbacks, lending persuasiveness to the case for state control. Simply put, the problem was that wholesale and retail power companies were allowed to coexist.

One reason the electric power industry did not accomplish voluntary regulation as envisioned by Matsunaga in the 1930s was his own fiery temper that led him to harshly criticize the management of other companies in the industry. At the time, the Federation of Electric Power Companies of Japan (FEPC), established in 1932, was the leader in promoting voluntary regulation, but Matsunaga's evaluation of the federation was ambivalent. On the one hand, the FEPC's power in deterring competition was in line with Matsunaga's vision; on the other, the FEPC upheld maintenance of the status quo and allowing the permanent coexistence of wholesale and retail power companies. Coexistence of wholesale and resale contradicted Matsunaga's goal of integrating electric power generation/transmission and distribution. Consequently, he withheld direct judgment on the FEPC immediately after its formation, but when the federation decided to resume hydroelectric power development in 1933, he vehemently opposed it as a return to hydroelectricity-oriented policy. Without restraint, he repeatedly criticized other electric power industry managers.

In addition to Matsunaga, another person within Toho Electric Power was frustrated with the lack of progress in voluntary regulation by the power industry. This was Daijiro Ide, a key member of the company's Research Department who had long served as Matsunaga's right-hand man. Ide was indispensable in helping Matsunaga with a series of plans to control the electric power industry. However, Ide became increasingly frustrated with the inadequacy of voluntary regulation and

⁸ *Op. cit.*, Kikkawa, T. (2004a), p. 203.

eventually left Toho Electric Power, becoming a leading proponent of state control. In contrast, while also frustrated, Matsunaga remained a believer in the private-sector-run electric power industry. Fiercely clashing with his former ally Ide, Matsunaga remained permanently opposed to state control.

The main opponents of state control of the electric power industry were the industry's executives, with Matsunaga the outstanding figure in terms of comprehensiveness and consistency of arguments. Yoshizo Ikeo, president of Nippon Denryoku (Nippon Electric Power), often referred to alongside Matsunaga as a leading opponent of state control, was inconsistent in his opposition, and ultimately accepted state control. This is demonstrated by Ikeo's appointment in 1941 as president of Nihon Hatsusoden, the company that served as the keystone of state control of the electric power industry.

On the other hand, Kiwao Okumura, a well-known proponent of state control, was an innovative bureaucrat and researcher at the Cabinet Research Bureau, the same organization that prepared the 1936 proposal igniting the state control debate. As a bureaucrat, however, Okumura needed support of industry insiders to create a feasible proposal for state control. One such insider was Daijiro Ide who had become an expert member of the Cabinet Research Bureau after leaving Toho Electric Power.⁹ Thus Ide was the main player behind the creation of the Cabinet Research Bureau's draft proposal. In the resulting debate over state control of electric power, the erstwhile allies Matsunaga and Ide headed two opposing camps.

Despite the strong opposition by Matsunaga and others, the government imposed state control over the electric power industry in 1939. Almost all private electric power companies, including Toho Electric Power, were forced to dissolve by 1942.

Matsunaga Leads the Reorganization of the Electric Power Industry

Thirteen years of state control of the electric power industry finally ended in 1951, 6 years after Japan's defeat in World War II. Unsurprisingly, Matsunaga led its reorganization.

Following his defeat in the state control debate, Matsunaga lived in seclusion during the war, but returned to public life in 1949 as the chairman of the Electricity Industry Reorganization Council. Based on his "Opinion" publication from 20-odd years earlier, he spearheaded the effort to create a system dividing Japan into nine regions, integrating power generation, transmission, and distribution, with private companies in charge of the power facilities' ownership and operation.

⁹See Sakurai, N. (1964). Denryokusangyo to kokkakanri (*Electric power business and state control*). In T. Kurihara (Ed.), Gendai Nihon sangyo hatten-shi III denryoku (*The history of the development of modern Japanese industries III: Electric power*). Tokyo: Kojunsha.

The GHQ (more precisely, GHQ/SCAP, or the General Headquarters Supreme Commander for the Allied Powers), which held absolute power during the occupation of Japan, initially insisted on an electric utility restructuring plan that differed from Matsunaga's but eventually supported his plan. The GHQ's reorganization plan was in flux, with plans to divide Japan geographically into five, seven, nine, or ten electrical regions. The difference in ability between Matsunaga who had a thorough knowledge of Japan's electric power industry, and the GHQ who had conducted research in haste, was obvious and the reorganization was implemented under Matsunaga's leadership.

His overall prewar experience as described above was an important factor underlying Matsunaga's "scientific management" approach to the electric power industry. Moreover, Matsunaga brought on board some of the most talented people in Japan's electric power industry before and after World War II. For example, a trio of supporters played an important role in formulating his proposal for the nine-block system: Kazutaka Kikawada of Kanto Electric Distribution, Yoshishige Ashihara of Kansai Electric Distribution, and Michio Yokoyama of Chubu Electric Distribution.¹⁰ These three later became presidents of Tokyo Electric Power, Kansai Electric Power, and Chubu Electric Power, respectively, standing in the frontline of Japan's electric power industry during the ensuing period of rapid economic growth.

The nine-block system that came into being in 1951 after reorganization of Japan's electric power industry's under the Matsunaga Plan proved successful and lasting. Despite a superficial change with the 1988 privatization of Okinawa Electric Power, making it a 10-block system, it has basically remained the same to this day.¹¹

Two Contributing Factors to Matsunaga's Ascent

How did Matsunaga manage to play such an important role in the history of Japan's electric power industry? There were two key contributing factors.

First, Matsunaga's customer-centric approach underlay his efforts. He pioneered a novel business model featuring combined hydro and thermal power generation, integrated management of power generation/transmission and distribution, and initiated innovative financing. In the history of the Japanese electric power industry, many managers have tried to enter new markets and grow their businesses by talking about a "customer-centric" approach, while aggressively lowering prices for a short term. Most of them, however, lacked a business model that would ensure a customer-centric stance over the long term, and they eventually disappeared.

¹⁰Kojima, N. (1980). *Matsunaga Yasuzaemon no shogai (The life of Yasuzaemon Matsunaga)*. Tokyo: The Publication Group of Biographies of Yasuzaemon Matsunaga.

¹¹However, the liberalization of electric power retail sales in 2016 greatly changed the power supply system comprised of ten companies. Furthermore, the separation of power generation and power transmission in 2020 terminated the role of the power supply system based on ten companies.

Although few, there were managers in addition to Matsunaga, such as Momosuke Fukuzawa, who proposed progressive business models. However, as seen in Fukuzawa’s model, most of them were rooted in supply-side logic, obviously inferior in substance to Matsunaga’s customer-centric model. Matsunaga was a rare manager in the electric power industry in combining a customer-oriented approach with a progressive business model.

Second, Matsunaga became a rallying point for talented individuals who played active roles in the development of Japan’s electric power industry. As noted, Matsunaga met an irreplaceable “life-long rival” in his younger days, Momosuke Fukuzawa who overshadowed him as a businessman in his early days as an investor and as a member of the House of Representatives. However, Matsunaga surpassed Fukuzawa in managing the electric power industry. Without exaggeration, we may say that the drive fueling “Matsunaga’s thoroughness in his research,” ultimately contributing to his unparalleled leadership of Japan’s electric power industry, was his strong rivalry with Fukuzawa.

Also notable was Matsunaga’s relationship with Daijiro Ide, who became his adversary in the process of implementing state control of electric power industry. Ide was the main player behind imposition of state control on the electric power industry. However, the mutual trust that was formed between Matsunaga and Ide, allies during their earlier days at Toho Electric Power, continued throughout their lives. That Matsunaga entrusted Ide in 1959 with the publication of the “History of Toho Electric Power” (edited by Toho Electric Power Company History Compilation Committee, 1962) 8 years after the reorganization of the electric utility industry (i.e., the end of state control) is a true testament.

In addition, the trio of his supporters—Kazutaka Kikawada, Yoshishige Ashihara, and Michio Yokoyama—played a significant role in the reorganization of the electric utility industry. Without their help in promoting the reorganization efforts, Matsunaga might not have attained success.

Establishment of the “Private Sector-Led Utility” Model

Even after the reorganization, Matsunaga continued to play an active role in the electric power industry. In 1953 he became president of the Central Research Institute of Electric Power Industry (CRIEPI). Overcoming government opposition, Matsunaga facilitated the primary use of thermal power over hydro power and the use of oil over coal. Such use of fuel contributed greatly to realizing a “low-cost, stable electricity supply,” one of the factors behind the rapid growth of the Japanese economy. People came to call Matsunaga the “Demon of Electric Power” in awe of the innovations he accomplished one after another, fighting government regulations until he passed away in 1971.

The first electric power company in Japan, Tokyo Electric Light, was established in 1883 (Meiji 16). Ever since, the major characteristic in the development of Japan’s power industry (except the period between 1939 and 1951 when it was under state

control), has been private ownership and operation. This contrasts with the telecommunications industry that was also under the jurisdiction of the Ministry of Posts and Telecommunications before World War II, but was kept under the direct control of either the government or a public company from its inception in 1869 until the privatization of the Nippon Telegraph and Telephone Public Corporation in 1985.

Unlike the telecommunications industry, there were two reasons for the dominance of private companies in the electric power industry:

- (a) differences in the initial conditions;
- (b) differences in subsequent conditions.

Regarding (a), the Meiji government placed decisive importance on the telecommunications industry for its role in national defense and security. Regarding (b), the accumulation of organizational capacity within the private power companies to manage the electric power industry basically blocked several nationalization attempts (except wartime state control implemented amid the rise of nationalist sentiment).

Japanese private ownership and operation of its electric power industry differs from the state-run or public-managed electric power industry in major European countries. It also differs from the U.S. electric power industry in that Japan's private sector companies have maintained large-scale operations. In short, Japan adopted a system that emphasized private-sector dynamism, based on concerted efforts to accomplish the task of "providing a stable supply of affordable electricity" for the benefit of the public.

This private-sector-led utility model would continue even after the full liberalization of electricity retailing in 2016 and the separation of power generation and transmission in 2020. Matsunaga was the key figure in establishing the internationally unique "private sector-led public utility" in Japan's electric power sector.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 10 Saburosuke Suzuki II: Commercialization of Exceptional Breakthrough Innovation



Abstract This case introduces Saburosuke Suzuki II of Suzuki Shoten, who successfully commercialized Ajinomoto, an umami seasoning made of monosodium glutamate (MSG), through breakthrough innovation.

“Three Greatest Inventions in Japan”

In response to business opportunities created by the emergence of mass consumer society in post-World War I Japan, companies dealing in beer, western confectionery, seasoning, cosmetics, soap, light bulb, and other goods began to engage in marketing activities aimed at integrating production and sales. Leading the way were Suzuki Shoten (predecessor of Ajinomoto), Dai-Nippon Beer (predecessor of Asahi Beer and Sapporo Beer), Morinaga Seika, Shiseido, Kao Soap, Kobayashi Tomijiro Shoten (predecessor of Lion), and Tokyo Denki (predecessor of Toshiba).

Among these, Suzuki Shoten was known for Ajinomoto, an umami seasoning made of monosodium glutamate (MSG)—considered one of the three greatest Japanese inventions after the enactment of the nation’s 1899 Patent Law. The other two were pearl cultivation by Kokichi Mikimoto and the automatic loom by Sakichi Toyoda. Most of the products listed above were imported, but Suzuki Shoten’s Ajinomoto was the result of breakthrough innovation, an exceptional feat in Japan at the time.

Invention of Ajinomoto by Kikunae Ikeda

The umami seasoning Ajinomoto went on sale in May 1909 (Meiji 42) as a new, epoch-making product, launched thanks to the efforts of two key people, Kikunae Ikeda, its inventor and a professor at Tokyo Imperial University, and Saburosuke Suzuki II, who commercialized the product.¹

“Ajinomoto Kabushiki Kaisha Shashi” (1971), a 60-year history of Ajinomoto, describes Ikeda’s invention of Ajinomoto:

The experiment was temporarily suspended after the autumn of 1907 [Meiji 40], as Ikeda was busy with his professional research, but early in the following New Year he came across a dissertation asserting that umami promotes food digestion (Hiizu Miyake, “Food and Digestion”). Since Ikeda was always concerned with correcting Japanese nutritional deficiencies, he was strongly motivated to invent and industrialize inexpensive seasonings.

Thus, Ikeda resumed his research, spending about two years total with a break in between Through a relatively short experiment of about three months, he finally discovered that dashi kelp contained glutamate and that this substance (glutamate) was the main component of umami.

He later recalled the motivation for his research and the process of invention as follows:

“In Meiji 40, my wife obtained a bundle of good kelp from Goni-kai’s product fair. I thought that although the chemical industry was producing many beautiful pigments to please the eye and fragrances to delight the sense of smell, products that appealed to the sense of taste were rare, except for saccharin, a dubious sweetener. I felt that research into the main flavor components of kelp might help to make up for this shortcoming. I took the kelp to the laboratory, made a leachate, and removed the inorganic salts and mannitol by crystallizing them, but the flavoring substance was still in the residual liquid. The attempts to separate them in various ways failed. Since I was too busy with other research at the time to continue this experiment outside my professional area, I decided to temporarily halt it. The following year, in [Meiji] 41, I read an article by Dr. Hiizu Miyake in the *Journal of Oriental Studies*, in which he explained that good taste promotes food digestion. I was also one of those concerned about the nation’s malnutrition, and I had been thinking for a long time about how we could help, but could not come up with a good idea. However, after reading this article, I concluded that creating good and inexpensive seasonings and making meager yet nourishing food delicious would be a way to achieve the goal. I resolved to resume the research that I had suspended the previous year” (pp. 41–42).

These recollections were originally published as “Motive for the Invention of Ajinomoto” by Kikunae Ikeda, included in Tokuhei Kametaka’s “Jinsei Kagaku” [Life is Chemistry], published in 1933 (Showa 8) by Teibi Publishing Company.

¹For details of Kikunae Ikeda and Saburosuke Suzuki II, see The Editing Office of a History of Ajinomoto Co., Inc. (Eds.) (2009). *Ajinomoto Gurupu no hyakunen: Shinkachi sozo to kaitakusha seishin (The one hundred years of the Ajinomoto Group: New value creation and pioneer spirit)*. Tokyo: Ajinomoto. This anthology includes Takeo Kikkawa, Prologue, front page: The modernization of Japan and “the birth of Ajinomoto”; prologue rear page: The delirious taste contributing to health; Chapter 1, front page: The agony of generating an epoch-making new product; Chapter 1, rear page: The factors that enabled production of the epoch-making new product; Chapter 2, front page: Advancement with repeating challenges; Chapter 2, rear page: The construction of the production system and the sales system.

Clearly, Ikeda was motivated to invent Ajinomoto out of his desire to improve the health of the Japanese citizenry through increased nutritional intake.

The Commercialization Effort by Saburosuke Suzuki II and Others

As a new seasoning, Ajinomoto was subject to repeated trial and error in all aspects of business, such as production and sales. Saburosuke Suzuki II, of Suzuki Shoten, solved a variety of problems and successfully commercialized Ajinomoto.

Suzuki was born in Kanagawa Prefecture in 1868 (Keio 3). With his younger brother Chuji and his eldest son Saburo, he incrementally solved problems and laid the foundation for the production and sales of Ajinomoto throughout the 1910s. The following sections describe this process.

Producing Ajinomoto was difficult as the company had no model to follow. However, technicians led by Chuji Suzuki boldly took up the challenge, making improvement upon improvement, and establishing the production technology as they went along.

Saburo was responsible for sales, developing independent and unique marketing activities. He established outlets, formed sales organizations, and conducted advertising and publicity. From its initial launch, Ajinomoto distribution channels were expanded beyond Japan to its colonies and Asian countries and regions such as Taiwan, Korea, and China, securing as broad a market as possible. The scope of Ajinomoto's activities then expanded across the Pacific to the U.S., with the opening of a New York office in 1917.

Saburosuke took advantage of the World War I boom to expand his chemical business, by starting production and sales of potassium products (especially potassium chlorate) in addition to the existing production of iodine and nitrite. In 1917, he established Suzuki Shoten Kabushiki Kaisha. In the same year, the Suzuki family entered the electrochemical industry, and its business blossomed during the World War I period.

Saburosuke Suzuki II Before His Encounter with Ajinomoto

A biography of Saburosuke II entitled "Biography of Saburosuke Suzuki" was published in 1932, the year after his death, by the Saburosuke Suzuki Biography Compilation Society. The book includes a "Short Biography" (Part 1) describing his life history, his own recollections "My Beginnings and Footsteps" (Part 2), and memorial essays contributed by Kikunae Ikeda and other related persons (Part 5).

How was Saburosuke able to commercialize Ajinomoto? Statements included in the "Biography of Saburosuke Suzuki" provide the answer. The key was his

character as an entrepreneur. A person's character is often vividly revealed in difficult times. Before his encounter with Ajinomoto, Saburosuke faced challenges when he was a regular at the rice exchange in Kakigaracho, Nihonbashi, Tokyo in the late 1880s, making a series of mistakes in market transactions.

After his mother and wife tried to produce iodine products together, they found that they could make a small profit and asked him to return home [from Tokyo] and take a look. He said, "You are talking nonsense and it won't work." As was his nature, he was determined to succeed in Kakigaracho, despite repeated failures. This character was one of his strengths. He was able to achieve success in the production of iodine, the promotion of Ajinomoto, and the electric power business because of his prudence, diligence and unyielding efforts. Fortunately or unfortunately, however, success did not arrive in Kakigaracho. (Volume 1, pp. 34–35)

Noteworthy here is that Saburosuke's failure in the rice market was tied to his personal strengths of prudence, diligence and unyielding effort. The biographer suggests that although Saburosuke's attitude was admirable, he made a mistake in choosing the rice market as the target of effort. Although this view is persuasive in light of subsequent developments, one question remains. There were doubtless others who were equally diligent and determined but who failed in market trading and ultimately lost their livelihood. How did Saburosuke manage to revive his career when others failed? The following description in the "Biography of Saburosuke Suzuki" provides clues.

His momentum in Kakigaracho was as if he was casting his rod against a current, and instead of moving upstream he was swept downstream. Even Saburosuke, the most strong-willed and patient, came to realize that a change of direction would be best. By chance, his mother urged him to return to his hometown, so he returned, feeling drawn. Seeing his mother and wife working so hard, he must have felt remorse; helping them gradually he learned that the production of iodine was surprisingly interesting. As his interest grew, so did his willingness to help, until he finally decided, "I'll go out on a limb and give it a try." By nature, once he made up his mind, he was determined, and once he started, he was not satisfied until he achieved his goal. That is why he finally started a full-fledged effort to manufacture iodine products (Vol. 1, pp. 36–37).

Simply put, having failed in market trading, Saburosuke had a place of return, making his revival possible. The support of his mother Naka and wife Teru was crucial. Without the iodine manufacturing business started by Naka and Teru, Ajinomoto may not have come into existence.

One of Saburosuke's contemporaries was Tomiro Nagase, who also failed in rice market trading in Kakigaracho, but later achieved success after opening Nagase Shoten, predecessor of today's Kao Corporation, in 1887 (Meiji 20). In Nagase's case, experience at Ino Kiichiro Shoten, a Western haberdashery merchant in Nihonbashi Bakurocho, was key to his revival. Nagase joined the business through the recommendation of a local caretaker (Takichi Akiyama). Recovery from a market trading failure is hard even for a diligent and devoted person. Only those fortunate enough to be surrounded by supportive people and who are given worthy goals can make a comeback.

Conditions That Enabled Ajinomoto's Commercialization

To identify the conditions that made the commercialization of Ajinomoto possible, we need to look at the circumstances of the encounter between Saburosuke Suzuki II and Kikunae Ikeda. Ikeda, who contributed an obituary, "I was the birth parent, you were the foster parent," to "Biography of Saburosuke Suzuki" describes their encounter as follows:

I first became acquainted with Mr. Suzuki in the 41st year of Meiji [1908]. For many years he had been well-known for his iodine manufacturing. At the time, I was consulted about the use of the by-products of iodine production, but I had nothing to contribute in this respect. However, [through this encounter] I learned that he was a man with an exceptional entrepreneurial spirit. So upon completion of my invention [monosodium glutamate/MSG], I entrusted him with its management, which he gladly accepted. In other words, he became the foster parent of my invention. The hardships of childbirth are great, but they are short-lived. On the other hand, the hardships of raising a child would last for years, and it is an extraordinary feat. (Vol. 5, p. 23).

This text shows that the two men met to discuss the byproducts of iodine production prior to negotiations over the commercialization of Ajinomoto. Ikeda was already so impressed by Saburosuke's entrepreneurial spirit that he entrusted the commercialization of MSG to him almost immediately. What was Saburosuke's reaction to Ikeda's invention of MSG? In his memoirs titled "My Beginnings and Footsteps" (1928) included in "Biography of Saburosuke Suzuki," Saburosuke recollected:

In Meiji 41 [1909], Dr. Kikunae Ikeda, a doctor of science, invented a seasoning mainly composed of glutamate, and I sincerely believed that if this method could be industrialized to produce a full-fledged product, it would make a great contribution to the happiness of mankind. At the same time, I believed that commercializing and undertaking large-scale production of this item would be an unprecedented experiment. So I worked on its manufacture and sales, named it Ajinomoto, and devoted myself to developing it as a standalone business (Vol. 2, pp. 2-3).

Saburosuke accepted Ikeda's proposal for commercializing MSG, agreeing with Ikeda's goal of contributing to human health through umami. Saburosuke also had the entrepreneurial foresight to realize that commercialization of MSG could produce a major global business.

This passage suggests that few people other than Saburosuke were willing to undertake the commercialization of Ikeda's MSG. However, Teijiro Ishikawa's "Biography of Saburosuke Suzuki" (Toyo Shokan) published in 1954, states that "Mitsui & Co. appeared as a competitor to Saburosuke in the commercialization of 'Misei' [MSG] that was patented by Dr. Ikeda" (pp. 145-146). Unfortunately, I could not confirm whether Mitsui & Co. did indeed emerge as a competitor to Saburosuke's MSG.

Whether or not Mitsui & Co. emerged as a rival, the manufacture and commercialization of MSG was successful precisely because Ikeda entrusted the product to Saburosuke rather than Mitsui. Prior to World War II, zaibatsu obtained patents and other rights to use innovative technologies in several cases but failed to

commercialize them due to conservative attitudes. Consequently, entrepreneurs who were not part of a zaibatsu commercialized such innovations.

The manufacture of synthetic ammonium sulfate by Shitagau Noguchi, to be discussed in [Case 12](#), is a typical example. Commercialization by entrepreneurs occurred not only in the synthetic ammonia industry, but also in the electrical machinery, rayon, and aluminum industries. If Ikeda had left commercialization of MSG to Mitsui, it would have been delayed or halted.

In his later years, Saburosukey looked back on his own business activities and repeatedly stated that “All promising businesses in Japan tend to be monopolized by zaibatsu such as Mitsui and Mitsubishi, so I wanted to start a business that others could not imitate, and I wanted to succeed on my own.”² Ikeda’s entrusting of Saburosukey with this project brought the success of Ajinomoto’s commercialization.

Struggles Leading Up to Ajinomoto’s Commercialization

Actually the commercialization of Ajinomoto was a difficult task for Saburosukey. In his memoir, “My Beginnings and Footsteps,” he wrote:

The invention itself merely showed that artificial seasonings can be chemically produced, but how to industrialize the manufacturing and how to commercialize the product were major problems that remained unsolved. Therefore, it was not difficult to imagine the road ahead as tough for those involved. It had thought about it, but felt I would regret it if I changed my original intention because of the difficulties. I decided to dedicate my life to the project, and in Meiji 42 [1909], built a factory in Zushi, Kanagawa Prefecture. Work began on the invention but it proved far more difficult than expected, especially because it was an industry originating in our country, with no advanced factories or technology to use as a model. Thus, we suffered beyond description, but unable to advance or retreat, we pressed on with our research plan. After many ups and downs, the undertaking gradually showed promising results. We moved our factory to Kawasaki, Tachibana County, in the [Kanagawa] prefecture in October of Taisho 3 [1914]. In June of Taisho 6 [1917], Suzuki Shoten was organized and put into operation (Vol. 2, p. 3).

Suzuki and staff experienced great hardship not only in manufacturing Ajinomoto, but in its commercialization. Saburosukey’s speech at the celebration of the twentieth anniversary of the launch of Ajinomoto (in the president’s speech at Sakau-ro [restaurant], Osaka) indicates this clearly:

To begin with, Ajinomoto was new. Unlike sake or soy sauce, it had not existed. Simply uttering “Ajinomoto” was not an option. In advertising, we had to explain in detail the “ingredients,” “properties,” “uses,” “directions for use,” and “amount used.” In terms of manufacturing, it was also a new business that required original research in equipment, machinery, and instruments. I cannot recall how often we repeatedly failed and produced wastefulness that seems foolish in retrospect. All our employees involved in aspects of manufacturing, sales, and advertising struggled tremendously. (Vol. 2, p. 22)

²The Editing Office of a History of Ajinomoto Co., Inc. (Eds.) (1971). *Ajinomoto kabushikigaisha shashi dai-ikkan (Vol. 1 of a history of Ajinomoto Co., Inc.)* (p. 252). Tokyo: Ajinomoto.

The entire process of production and sales was almost tearful, even from the perspective of its inventor Ikeda. In his essay "I was the birth parent, you were the foster parent," Ikeda describes the struggles of "foster parent" Saburosuke as follows.

My invention was made on a laboratory table and had not yet been tested even in a small factory. Therefore, we had to first conduct a test to see if it was suitable for manufacturing. At this time, we had generally identified the difficulties with machinery and equipment required for manufacturing as well as the complicated processes. After completing the small-scale manufacturing tests, we encountered many problems in manufacturing, but your family gradually conquered these through perseverance and persistence. Although the manufacturing process was gradually perfected, it was even more difficult to commercialize the product and develop distribution channels: the product was completely unknown to the public. The first few years of production must have been difficult and miserable. But when the name Ajinomoto gradually gained recognition, the company decided not to rest on its small success and moved its factory from Zushi to Kawasaki, improving the product. At the same time, by applying clever advertising techniques, the company expanded sales channels and finally achieved its present-day success. In this feat, we should be able to see the true colors of your enterprise and your unparalleled business acumen (Vol. 5, p. 24).

What Made Ajinomoto's Commercialization Possible?

How was Saburosuke able to commercialize Ajinomoto? The answer can be summarized by the following three points.

First, his personality and attitude towards the business, persisting in the original ideal. As noted earlier, he was a man of "prudence, diligence and unyielding efforts" even before his encounter with Ajinomoto. Saburosuke himself said: "I would regret it if I did not continue my original intention due to the difficulties involved. I decided to dedicate my life to this." And Ikeda highly praised Saburosuke's "perseverance and efforts."

Second, Saburosuke's entrepreneurial ability, foresight and business acumen. His ability is clearly demonstrated in his foresight that MSG could become a major global business. Through clever sales strategy he succeeded in commercializing Ajinomoto, an unknown product, and advanced the business with forward-thinking spirit, usually unthinkable for a zaibatsu.

Third, the Suzukis' family-wide support. Saburosuke's recovery from his market trading failure was possible because of the cooperation by his mother and wife. The support of his younger brother Chuji and eldest son Saburo was also indispensable in the commercialization of Ajinomoto. Ikeda's praise of the efforts of "your family" in the manufacturing of Ajinomoto testifies to this.

Saburosuke Suzuki II passed away in March 1931. The following month Chuji Suzuki became the second president of Suzuki Shoten.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 11 Kiichiro Toyoda: From Breakthrough to Incremental Innovations



Abstract This chapter introduces Kiichiro Toyoda, the effective founder of Toyota Motor Corporation, who established the basis of the “Toyota Production System” with its Kanban method and Kaizen.

“The Business History of the Toyoda Family’s Spinning and Weaving Business” (Toyoda-ke Boshoku Jigyo no Keiei-shi) by Hiroaki Yamazaki

Kiichiro Toyoda, “the effective founder of Toyota Motor Corporation (formally, of its predecessor, Toyota Motor Co. Ltd),”¹ was born in 1894 (Meiji 27), the eldest son of Sakichi Toyoda, a leading Japanese inventor, in Yoshizu Village, Fuchi County (present-day Kosai City, Shizuoka Prefecture) on the western shore of Lake Hamana in Shizuoka Prefecture.

Hiroaki Yamazaki’s book entitled “The Business History of the Toyoda Family’s Spinning and Weaving Business: From Spinning and Weaving to Spinning and Weaving Machinery to Automobile” published by Bunshin-do in 2015, provides a detailed account of the Toyoda family business evolution since Sakichi. Following is a book review that I contributed to the “Weekly Economist.”²

Numerous books have been written about Sakichi Toyoda’s success in inventing the automatic loom and becoming “Japan’s loom king.” Also, the process by which Sakichi’s eldest son, Kiichiro, built on his father’s business and boldly entered the automobile industry has recently been the subject of much research.

¹Wada, K. (2004). “Toyoda Kiichiro” (Kiichiro Toyoda) in Business History Society of Japan eds with Yamazaki, Hiroaki ed. in chief, *Nihon keieishi no kiso-chishiki (Basic knowledge on Japanese business history)* (p. 290). Tokyo: Yuhikaku Publishing Co., Ltd.

²Kikkawa, T. (2015). Shohyo Yamazaki Hiroaki-cho Toyoda-ke boshokujigyo no keieishi, Boshoku kara boshokki soshite jidosha he (*Book review: The business history of the Toyoda family’s spinning and weaving business—from spinning and weaving to spinning and weaving machinery to automobile by Hiroaki Yamazaki*). *Shukan ekonomisuto (The Weekly Economist)*, 29 September.

However, little has been done to examine how the Toyoda family amassed enormous wealth during the period, and what type of business development enabled it. Hiroaki Yamazaki's "The Business History of the Toyoda Family's Spinning and Weaving Business: From Spinning and Weaving to Spinning and Weaving Machinery to Automobile" (Bunshin-do, 2015) is a daring attempt to fill this gap.

The book begins with a careful and detailed estimation of the amount of income tax levied, using as clues the Shoko Shinyoroku [Commercial and Industrial Credit Record], Nihon Shinshiroku [Japan Gentlemen's Register], and other documents. It reveals that Sakichi Toyoda's annual income, which was 300 yen in 1901, rose to 3000 yen 10 years later when he established an automatic loom factory. After a surge during the boom years of World War I, it reached over 120,000 yen in 1928, just before his death in 1930 (Showa 5).

The author makes similar estimates for the incomes of Sakichi's immediate and extended family. He successfully recreates the process that led to the Toyoda Family's becoming one of the "three major zaibatsu of Chukyo [central Japan]" by showing dramatic changes in their annual incomes.

Although analysis using tax records has recently been attempted in books such as "Capital in the Twenty-First Century" by Thomas Piketty [Le Capital au XXI^e siècle, originally published in French in 2013], I do not know of any other work that has examined the income trends of high-income earners in such a thorough manner and over such a long period of time, utilizing publicly available tax data. This book will remain in the annals of research history not only for its richness of content but also for the novelty of its methodology.

Yamazaki then goes on to detail the rapid growth of the Toyota Automatic Weaving Factory and the development of Toyota Boshoku, Toyota Boshoku Factory, and Toyota Automatic Loom Works [present-day Toyota Industries], that made it possible for the Toyoda family to increase its income. The writer reveals that the Toyota Boshoku Factory played a major role in the company's expansion into China, and that the dividends and executive compensation paid by the group of companies increased the income of the Toyoda family.

The book's final section focuses on the financial conditions that enabled Toyota Automatic Loom Works to enter the automobile industry. In the conclusion, Yamazaki points to three factors: 1) the support of Toyota Boshoku and the Toyota Boshoku Factory; 2) the backing of the Mitsui zaibatsu led by Mitsui Bank; and 3) the co-financing by large banks in line with the national policy.

Yamazaki's "The Business History of the Toyoda Family's Spinning and Weaving Business" tells how Kiichiro Toyoda's entrepreneurial activities, such as those demonstrated in his foray into the automobile industry, were closely intertwined with the Toyoda family's overall business.

Sakichi, Risaburo, and Kiichiro Toyoda

The definitive biography of Kiichiro Toyoda is Kazuo Wada and Tsunehiko Yui's "A Biography of Kiichiro Toyoda" (Toyota Motor Corporation, 2001) [English version title: Courage and Change - The Life of Kiichiro Toyoda, 2002]. The following is a review of Kiichiro's life, based on the biography.

Kiichiro attended Meirin Junior High School, a private school in Aichi Prefecture, and then the Second High School in Sendai before entering the Department of Mechanical Engineering at the Tokyo Imperial University Faculty of Engineering.

After graduation, he joined Toyota Boshoku in 1921 (Taisho 10). In the same year, he also became an auditor of the Toyota Boshoku Factory.

In 1909, while Kiichiro was a student at Meirin Junior High School, his father Sakichi applied for a patent for an “automatic shuttle-changing device” which would become the key component of automatic looms. This device “automatically replenishes the weft yarn through the push-up mechanism.”³

Sakichi Toyoda established the Toyota Automatic Weaving Factory in 1911, and in 1914 (Taisho 3) with the construction of the spinning mill, he renamed it the Toyota Automatic Spinning and Weaving Factory. Then in 1918 he again reorganized the company and established Toyota Boshoku. Sakichi went on to build a spinning and weaving factory in Shanghai, establishing the Toyota Boshoku Factory there in 1921. After graduating from university, Kiichiro began working for these companies established by his father.

When assessing Kiichiro’s entrepreneurial activities, it is clear that his relationship with his father Sakichi was significant. However, another person was greatly involved in Kiichiro’s activities—Risaburo Toyoda who joined the Toyoda family in 1915 (Taisho 4) as the husband of Kiichiro’s younger sister Aiko. When Kiichiro joined Toyota Boshoku, Risaburo was “effectively in charge of the company”⁴ as executive managing director.

Tsunehiko Yui describes how Risaburo became Kiichiro’s brother-in-law. In 1915, Kiichiro was a student at the Second High School.

The marriage proposal for Aiko, then a student at a girls’ school, came up rather abruptly. Around August of that year [1915] Sakichi Toyoda was visited by Risaburo, the younger brother of Ichizo Kodama, who had been the head of the cotton department at the Osaka branch of Mitsui & Co. and whom Sakichi trusted. At the time, Sakichi had witnessed a dramatic surge in textile exports. So when he met Risaburo who was already well versed in the textile trade and business, brimming with a proactive spirit, Sakichi came to harbor hopes that he would be his right-hand man and even his successor (one wonders whether Kiichiro, still a student at Second High School, was far from being considered successor material). Risaburo, still single, was also eager to have Aiko as his lifetime spouse, and this was when the prospect of marriage to Aiko suddenly became a reality. Aiko, a fourth-year student at Aichi Prefectural First Girls’ School, was initially hesitant about the early marriage proposal, but Sakichi persuaded her, and eventually in October of the same year, Risaburo became his son-in-law and joined the Toyoda family. Thus, Risaburo, ten years older, became Kiichiro’s brother-in-law.⁵

³Wada, K., Yui, T., & Toyota Motor Corporation’s History and Culture Department (Eds.) (2001). *Toyota Kiichiro den (A biography of Kiichiro Toyoda)* (p. 23). Toyota: Toyota Motor Corporation.

⁴*Ibid.*, p. 84.

⁵*Ibid.*, p. 50.

Development of the Model G Automatic Loom

In 1921, shortly after joining Toyota Boshoku, Kiichiro Toyoda traveled to Europe and the United States with Risaburo and Aiko. According to Kazuo Wada, “this trip became a major turning point in Kiichiro Toyoda’s life.”⁶

During the trip, Kiichiro followed a separate itinerary from Risaburo and Aiko and spent several weeks as a factory intern at Platt Bros. & Co. in England, one of the world’s leading textile machinery manufacturers at the time. Through this experience, “he deepened his understanding of textile machinery and saw that the high quality of Platt’s machines was maintained by a careful finishing touch by humans (i.e., they did not use completely interchangeable parts), but he also had doubts about the management of the workers on the shop floor. He headed home with these thoughts in mind.”⁷

After returning to Japan, Kiichiro became involved in designing textile machinery, focusing on the development of an automatic loom equipped with an automatic shuttle changing device. The device had been invented by his father. Kiichiro’s efforts bore fruit in 1924 with the completion of the Toyota automatic loom (Model G) featuring nonstop automatic shuttle change, and in 1925 a patent for the invention was registered in Kiichiro Toyoda’s name. In 1926, Toyota Automatic Loom Works [present-day Toyota Industries] was established, and Kiichiro became its managing director.

The patent rights for the Model G automatic loom were transferred to Platt in 1929 under the “Toyota-Platt Agreement.” With this agreement, Toyota Automatic Loom’s technical superiority over Platt gained global recognition. The Model G automatic loom was the culmination of Sakichi’s many inventions, but it is undeniable that Kiichiro played an important role in its development. Then how did the rumor that Sakichi alone was responsible for its development take hold? Kazuo Wada, going back to the time of Sakichi’s death in 1930, explains the circumstances as follows:

Many people attended the funeral of Sakichi Toyoda, a world-famous inventor born in Japan. Many newspapers ran major features showcasing various episodes from Sakichi’s life, and Sakichi was deified. Many of the episodes about Sakichi written later were based on the newspapers published during this period. In particular, the transfer of his patent rights to Platt Bros & Co. was widely reported as the definitive achievement of his later years. These episodes led to the belief by those lacking technological background that the Model G automatic loom was Sakichi’s achievement. In the climate of glorifying Sakichi, similar episodes were repeated without deep consideration, and through repetition, they came to be perceived as facts . . . Even Kiichiro, who knew the truth, would not discuss it until close to his own death.⁸

⁶ *Op. cit.*, Wada, K. (2004), p. 290.

⁷ *Ibid.*, p. 290.

⁸ *Op. cit.*, Wada, K., & Yui, T. (2001), p. 275.

Entry into Automobile Manufacturing

Kiichiro returned to Platt Bros. & Co. in England in 1929 (Showa 4) to sign the “Toyota-Platt Agreement,” and there he saw firsthand that the textile-related industries were in dire straits. He began to look for alternatives to the textile industry and chose automobile manufacturing.

Kazuo Wada states that “the question of when Kiichiro Toyoda decided to enter the automobile business is the most important point in studying his life.” “I would like to determine the timing by tracing Kiichiro’s own actions closely,” concluding: “The creation of the prototype engine [based on] Smith Motor was the first time Kiichiro gave concrete form to his future vision.” This statement refers to Kiichiro’s 1930 entry into the automobile business. Wada describes the Smith Motor as “a popular engine at the time, which could be attached to an ordinary two-wheeled or three-wheeled bicycle for transporting goods. Many were imported to Japan in the 1920s for use as a simple means of transportation.”⁹

The cooperation of Risaburo Toyoda, then president of Toyota Automatic Loom Works, was crucial to Kiichiro’s successful entry into automobile manufacturing. Kazuo Wada explains: “Risaburo Toyoda, who, like Kiichiro, had doubts about the future of the textile industry, cleverly suppressed the opposition of those around him, and Toyota Motor Corporation was born with the concerted financial support of the companies in the Toyota group.”¹⁰ Here is Wada’s detailed explanation of that financial backing:

From a financial standpoint, we must not forget the role played by Toyota Automatic Loom Works in the establishment of Toyota Motor. In addition, the roles played by Toyota Boshoku and Toyota Boshoku Factory must also not be forgotten. Toyota Automatic Loom Works had invested as much as approximately 17 million yen in the automobile manufacturing business, which grew out of its Automotive Department. One of the reasons Toyota Automatic Loom Works was able to make such a large investment was due in part to the abundant funds the company had generated from the manufacture and sale of Model G automatic looms and spinning machines. At the same time, however, Toyota Automatic Loom Works issued new shares three times, in January 1934, July 1935, and October 1936, and these were underwritten mainly by Toyota Boshoku and Toyota Boshoku Factory . . . Toyota Motor came into being only thanks to the combined financial support of the textile-related companies that Sakichi, Risaburo, Kiichiro, and others had built over the years . . . Each of the Toyota-affiliated companies took on the role of a venture capitalist, financially backing Kiichiro’s efforts to create the new business.¹¹

In 1933, ten prototype 60 cc motorcycle motors were built, and the Automotive Department was established within Toyota Automatic Loom Works. 1936 saw the start of production of AA passenger cars and GA trucks, leading to the establishment of Toyota Motor Corporation in 1937. Risaburo was appointed president of the company, and Kiichiro vice president. Kiichiro became president in 1941.

⁹For discussion so far, see *Ibid.*, pp. 272–273.

¹⁰*Op. cit.*, Wada, K. (2004), p. 290.

¹¹*Op. cit.*, Wada, K., & Yui, T. (2001), pp. 347–348.

Toyota's Labor Dispute and Kiichiro's Retirement

With the end of World War II, Kiichiro hoped to realize his long-held dream of manufacturing passenger cars in Japan. However, an unexpected predicament awaited him.

In the period immediately following the end of the war, the emphasis of the U.S. Occupation policy toward Japan was to “demilitarize” the country’s economy, but as the Cold War intensified, the focus shifted to “economic reconstruction” [of Japan] from around 1947 (Showa 22). To promote Japan’s rapid economic recovery, it was necessary to end rampant inflation, prevalent since the end of the war. This task was accomplished by Joseph M. Dodge, who arrived in Japan as a U.S. envoy in February 1949. The series of measures carried out by Dodge, such as balancing the national budget, reducing subsidies, and establishing a single exchange rate of 360 yen to the dollar, were referred to as the “Dodge Line.”

Although the Dodge Line succeeded in curbing inflation, its deflationary effect triggered a serious recession. Dubbed the “Stability Depression,” it created massive unemployment and provoked serious labor-management conflicts. In the aftermath of the Stability Depression, the “Toyota [Labor] Dispute” broke out at Toyota Motor when deteriorating automobile sales forced the company to lay off employees in order to restructure its operations. In April 1950, in response to the company’s streamlining proposal, the labor union went on strike for 2 months, until the outbreak of the Korean War. Kiichiro, the founding president, took responsibility and resigned not only as president but also as a board director in June 1950—a surprise even to the leaders of the union. Kazuo Wada describes the events:

In June 1950, Kiichiro resigned as president of Toyota Motor, ending the dispute. It came down to Kiichiro leaving the automobile business to which he had devoted his life and soul. The union leaders said they had never been as shocked as they were at the resignation of Kiichiro. Even to them, Kiichiro was an embodiment of Toyota Motor itself. The union, which had stood up to defend their members’ livelihood, respected Kiichiro. Otherwise, his statue would not have been later erected in front of the corporate headquarters.¹²

The extraordinary procurement boom brought on by the Korean War that broke out in June 1950 ultimately saved the Japanese economy from the recession brought on by the Dodge Line. The Korean War also prompted the U.S. and Japan to sign a peace treaty. The San Francisco Peace Treaty of April 1952 ended the ongoing Allied occupation of Japan following World War II defeat. Many companies managed to free themselves from financial difficulty thanks to demand arising from the Korean War; Toyota Motor was no exception. The boom restored Toyota Motor and the company soon began its journey to becoming a global company.

In the March 11, 1951 issue of the Japanese business magazine *Diamond*, an article entitled “Toyota Motor Company’s Business Turns Around” describes the changes in the company’s performance before and after the Korean War as follows:

¹² *Ibid.*, pp. 382–383.

“The first half of last year was a difficult time for the company. It had to reduce the workforce and cut back on production. The general cash shortages had caused a sharp decline in automobile sales.” The article went on to say: “However, after the incident, heavy demand came in [from abroad]. Domestic demand also returned gradually and sale prices soared. This was not long after the company had cut back its workforce. This time, the company encountered an almost dizzying business. It was a complete change of situation.” The “incident” in the text refers to the Korean War.

Cited in this article, Toyota Motor’s production value was 342.5 million yen in January 1950, falling to 114.85 million yen in May of the same year but recovering to 249.52 million yen in June when the Korean War began, and reaching 734.7 million yen in January 1951. On the other hand, the number of employees, 8227 in January 1950, had declined to 5599 in June when the war broke out, not turning upward even in January 1951, with 5486 employees. Thus, the company’s per-employee production value had shrunk and then increased significantly—from 42,000 yen/person in January 1950, to 15,000 yen/person in May 1950, to 45,000 yen/person in June 1950, to 134,000 yen/person in January 1951. Toyota Motor was not the only company to emerge from a business crisis thanks to the special procurement boom from Korea. The experience was the same for many others in various industries. We must not forget that the “miraculous recovery” of the Japanese economy was due in large part to the special procurement boom triggered by the Korean War.

Ironically, soon after Kiichiro stepped down as president, Toyota Motor emerged from its financial crisis. Reflecting this comeback, it was “almost certain that he would return to Toyota Motor by the end of 1951.” However, in the end, Kiichiro’s return never materialized because “the physical and mental strain that had continued during and after the war, combined with his long-standing hypertension, took a toll on Kiichiro’s health.”¹³ Kiichiro Toyoda passed away in March 1952. And, as if to follow him, Risaburo also died in June of the same year.

The Toyota Production System

The so-called Toyota Production System (TPS) was the source of Toyota Motor’s competitive strength as it embarked on the path to becoming a global company. In closing this case study, our attention turns to the Toyota Production System that saw its full-scale development after Kiichiro’s death.

During the period of rapid economic growth, Japanese companies gradually began to emphasize high-mix, low-volume production, and eventually developed a production system distinct from their U.S. counterparts, who primarily pursued the benefits of mass production. A representative example was the Toyota Production System that replaced the Ford System, a mass production system based on workflows.

¹³ *Ibid.*, p. 384.

The fundamental goal of the Toyota Production System is to eliminate excessive intermediate inventory resulting from mass production. According to Taiichi Ōno, the creator of the Toyota Production System and vice president of Toyota Motor, the two pillars of the system are “Just-In-Time” and “Automation.”¹⁴ “Creation of flow” throughout the production process supports these foundational pillars.

“Just-In-Time” means ensuring that in the workflow process of assembling an automobile the necessary parts arrive on the production line as needed, when needed, and in the quantity needed.¹⁵ To accomplish this, instead of the conventional “earlier processes supplying later processes [the push system],” one lets “later processes pick up necessary items from earlier processes when and as needed [the pull system].” The “kanban” [signboard], synonymous with the Toyota Production System, was devised as a means of linking different stages of production when implementing the “later process pick up” [i.e., pull], indicating what and how much is needed by later processes.

Meanwhile, “Automation” with a human touch [“jidoka” in TPS terminology] meant automation incorporating human discretion, and in terms of machines, it meant enabling workers to immediately halt production whenever an abnormality was detected. As a result of such automation, a single worker would be able to supervise multiple processes, allowing “multi-process handling,” an important prerequisite for “creating flow” in production.

However, even if “multi-process handling” is accomplished in earlier stages, if there is a large variance in production in the final stage, earlier stages will necessitate extra people and equipment. Therefore, to “create flow” in the entire production process, the lot size of the final process must be kept as small as possible to ensure smooth production. To accomplish this, swift “setup changes,” such as changing the mold in the press department, would be essential. While the average press setup time in Toyota Motor’s main plant ranged from 2 to 3 hours in the early 1950s, this timing was shortened to 15 minutes in 1962, and to 3 minutes in 1971. By speeding up the time involved in “setup changes,” Toyota Motor was able to smooth out the production process.

Toyota Motor began developing the Toyota Production System immediately after the end of the war. It partially introduced the “later process pick up” [the pull system] as early as 1948, and nearly perfected it in the early 1960s. It fully adopted “Kanban” in 1962 and established “multi-process handling” in 1963. After the oil crisis, the Toyota Production System spread to many Japanese companies, beyond the boundaries of one company (Toyota) and one industry (automobile). The spread of a production system able to produce a wide variety of products in small quantities at low cost contributed greatly to the competitiveness of Japanese products in the

¹⁴Description of the “Toyota production system” based on Ōno, T. (1978). *Toyota seisan hoshiki: Datsukibo no keiei wo mezashite (Toyota production system: Aiming for management without scale)*. Tokyo: Diamond, Inc. See especially pp. 5–22; 229.

¹⁵Wada points out that Kiichiro Toyota conceived of “Just in Time” by 1938–1939. For this discussion, see *op. cit.*, Wada, K., & Yui, T. (2001), pp. 352–353; 362–363.

global market. After a period of rapid growth, the global market was entering a period of low growth around that time.

The Toyota Production System spread around the world with “Kaizen” becoming a part of English vocabulary. The very meaning of the word “Kaizen,” or improvement, epitomizes incremental innovations.

Kiichiro Toyoda’s entrepreneurial activities, starting with the breakthrough innovation of the Model G automatic loom with his father Sakichi, were passed down in the form of the “Toyota Production System,” a representative example of incremental innovation in postwar Japan.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter’s Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter’s Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 12 Shitagau Noguchi and Yoshisuke Aikawa: Emergence of New Konzerns and Foray into the Continent



Abstract This chapter discusses the Emergence of New Konzerns and Foray into the Asian Continent. It introduces two innovators; Shitagau Noguchi, leader of Nichitsu (Japan Nitrogenous Fertilizer) and Yoshisuke Aikawa, the chief of the Nissan konzern.

New Konzerns

In the 1920s, a period of prolonged recession in Japan, the four major zaibatsu—Mitsui, Mitsubishi, Sumitomo, and Yasuda—once again restored their dominance for the first time since the Meiji period. In the 1930s, however, a different group of companies, collectively known as “new konzerns,” began to thrive.¹ A konzern is a form of monopolistic organization whereby a single holding company aims to control different industrial sectors through shared ownership in multiple subsidiary companies.

The five that are often listed as new konzerns are: (1) Nissan (Nihon Sangyo) konzern led by Yoshisuke Aikawa; (2) Nichitsu (Japan Nitrogenous Fertilizer) konzern led by Shitagau Noguchi; (3) Mori konzern led by Nobuteru Mori; (4) Nisso (Nippon Soda) konzern led by Tomonori Nakano; and (5) Riken (Rikagaku Kenkyusho) konzern led by Masatoshi Ōkochi. Of these, the core company of the Mori konzern was Showa Fertilizer, which merged with Nippon Denko in 1939 (Showa 14) to form Showa Denko.

¹For details of the newly emerging konzerns, see Udagawa, M. (1984). *Shinko Zaibatsu (New zaibatsu)* Tokyo: Nikkei Publishing Inc.; Saito, K. (1987). *Shinko kontserun riken no kenkyu: Ōkochi Masatoshi to rikensangyodan (Studies of RIKEN, an emerging konzern: Masatoshi Ōkochi and RIKEN industrial group)*. Tokyo: Jichosha; Ōshio, T. (1989). *Nitchitsu kontserun no kenkyu (Studies of Nitchitsu konzern)*. Tokyo: Nihon Keizai Hyouronsha; Shimotani, M. (1993). *Nihon no keiretsu to kigyō grupu: Sono rekishi to riron (Japanese keiretsu and corporate groups: Their history and theory)*. Tokyo: Yuhikaku Publishing Co., Ltd.; and Asajima, S., & Ōshio, T. (1997). *Showa Denko Seiritsushi no kenkyu (Studies of the history of the establishment of Showa Denko)*. Tokyo: Nihon Keizai Hyouronsha.

Among the new konzerns, Nissan and Nicchitsu stood out in terms of the scale of their operations. An article, "Nissan Konzern's Trends" [Nissan konzern's no Doko] in the February 11, 1935 issue of the Japanese magazine "Diamond" states: "As a newly emerging konzern, Nihon Sangyo (Nissan), which is riding the wave of the extraordinary economic situation, currently has 17 direct subsidiaries, with a nominal capital of 266 million yen and a paid-in capital of 198 million yen. Of the latter, Nissan's investment amounts to 144 million yen, accounting for 72.8% of the total paid-in capital."

The direct subsidiaries of Nissan konzern listed in the article were: (1) Nihon Mining, (2) Nihon Tanko, (3) Yamada Tanko, (4) Nissan Gomu, (5) Hitachi Seisakusho [Hitachi Works], (6) Hitachi Denryoku, (7) Osaka Tekkosho, (8) Nissan Jidosha [Nissan Motor], (9) Kyodo Gyogyo, (10) Nihon Godo Kosen, (11) Nihon Shokuryo Kogyo, (12) Nihon Hogeï, (13) Chuo Doboku, (14) Nissan Kisen, (15) Teikoku Dozai Kogyo, (16) Nanbei Suisan, and (17) Godo Tochi.

Meanwhile, an article, "Anatomy of Nicchitsu Konzern" [Nicchitsu Konzern no Kaibo] in the July 1, 1938 issue of "Diamond" states that "Nicchitsu is the second largest konzern after Mangyo [Manchuria Heavy Industries Development Co., reorganized from Nihon Sangyo]. The number of companies under its control is 13 directly controlled and 18 indirectly controlled, with a total capitalization of over 600 million yen and total assets of 830 million yen."

In addition to the core company, Japan Nitrogenous Fertilizer, the article listed the following 13 subsidiaries as direct affiliates of Nicchitsu konzern: (1) Chosen Chisso, (2) Choshinko [Changjin River] Suiden, (3) Chosen Coal Industries, (4) Nicchitsu Shoken, (5) Nicchitsu Kogyo, (6) Tanpo [Danpung] Tetsudo, (7) Chosen Kogyo Kaihatsu, (8) Shinko [Sinheung] Tetsudo, (9) Chosen Biru, (10) Nicchitsu Kayaku, (11) Chochitsu Kayaku, (12) Chosen Suisan Kogyo, and (13) Chosen Maito. The indirect subsidiary companies included Asahi Bemberg Silk Yarn, later becoming Asahi Kasei.

These emerging konzerns behaved differently from the established zaibatsu in that they raised funds through the stock market, developed businesses centered on the heavy chemical industry, and consisted mainly of operating companies with no trading companies or banks. Nissan konzern aggressively expanded into Manchuria (northeastern China) and Nicchitsu konzern into the Korean Peninsula. Although their overseas assets were almost completely wiped out with Japan's defeat in World War II, many blue-chip companies that drove Japan's postwar economic growth emerged from their direct and indirect subsidiaries. In this case study, we will focus on Shitagau Noguchi who created Nicchitsu konzern, and Yoshisuke Aikawa who built the Nissan konzern.

Brief Biography of Shitagau Noguchi

Shitagau Noguchi was born in Kanazawa in 1873 (Meiji 6). After graduating from the Department of Electrical Engineering at the Imperial University (today's the University of Tokyo), he joined Koriyama Lighting Company in Fukushima Prefecture as a chief engineer. He then worked at the Japanese branch of the German electrical manufacturer Siemens, and at Azumi Electric in Nagano Prefecture before founding Sogi Electric in Kagoshima Prefecture in 1906 and becoming its president.

The establishment of Sogi Electric marked Shitagau's start as an entrepreneur. At that time, hydroelectric power generation was still mainly based on waterways, not dams. This created surplus electricity during summer, which in mainland Japan starts with the rainy season in June and ends with the typhoon season around August-September. As air conditioners were not yet common at the time, electricity demand typically peaked during winter due to demand for heating.

To solve the power surplus problem, Yasuzaemon Matsunaga (discussed earlier in [Case 9](#)) adopted a system combining hydroelectric and thermal power generation. Shitagau devised a different solution, the so-called electro-chemical method, using surplus energy to material of the chemical industry. This utilization of surplus energy was an excellent business model in Japan at the time. Noguchi began with carbide manufacturing, then expanded his business by introducing foreign technologies such as the manufacturing of lime nitrogen and ammonium sulfate, as well as Bemberg (artificial) silk. Upon his entry into the carbide business, Noguchi established Nihon Carbide Shokai that merged with Sogi Electric in 1908 and was renamed Japan Nitrogenous Fertilizer Company. That same year, he started manufacturing carbide.

Noguchi's decision to build a carbide plant in Minamata, Kumamoto Prefecture, was the result of a village-wide campaign to attract the plant. The original candidate site was Komenotsu, the northernmost village in Kagoshima Prefecture. But Minamata campaigners enthusiastically presented favorable conditions, promising: "If Minamata is considered more remote than Komenotsu, we will donate the electric lines and poles to bridge the gap. We will renovate the port to a level superior to that of Komenotsu. We will keep the land price for the factory no more expensive than the average price, and if it rises in price, the village will pay the difference."² This factory was the predecessor of the Minamata factory of Chisso Corporation. After World War II, the factory became the site of globally notorious industrial pollution, afflicting many local residents with Minamata Disease—a sad twist of fate considering that the locals had originally welcomed the plant.

Noguchi steadily introduced foreign technologies and began manufacturing lime nitrogen, ammonium sulfate, and artificial silk. In 1923 he built an ammonium

²Nakamura, S. (1978). Noguchi Shitagau: Kyodai denryokukagaku konbinato no kensetsu (*Shitagau Noguchi: The construction of large-scale electric and chemical complexes*). In H. Morikawa, S. Nakamura, K. Maeda, K. Sugiyama, & K. Ishikawa (Eds.), *Nihon no kigyoka (3) showa-hen (Japanese entrepreneurs 3: The Showa edition)* (p. 49). Tokyo: Yuhikaku Publishing Co., Ltd.

sulfate plant in Nobeoka, Miyazaki Prefecture. Importantly, Noguchi introduced the latest Haber-Bosch process from Germany and succeeded in manufacturing synthetic ammonium sulfate in Japan ahead of Mitsui, Mitsubishi, and Sumitomo. Historian Seishi Nakamura comments:

The Haber-Bosch process was made available to Japanese nationals in Taisho 6 [in 1917 during World War I] under the Wartime Law on Industrial Property, and in Taisho 10 the license was sold to the Toyo Nitrogen Association, jointly formed by Mitsui, Mitsubishi, Sumitomo, and others. However, the association, representing the interests of established zaibatsu, was interested in commercial profit, but was averse to risk and unwilling to engage in industrial manufacture.

Noguchi's bold entry into synthetic [ammonium sulfate] manufacturing during the post-WWI recession contrasted sharply with the reluctant stance of the established zaibatsu that were hesitant about the synthetic ammonium sulfate industry. Noguchi's actions can be termed those of a groundbreaking entrepreneur. Furthermore, the shift to synthetic manufacturing enabled a significant reduction in cost, including the cost of raw materials, compared with existing conversion methods. From the end of the Taisho era to the beginning of the Showa era, Nichitsu was able to compete with foreign manufacturers of ammonium sulfate and maintain a steady performance even under extremely difficult conditions, such as the dumping of foreign-made ammonium sulfate and the collapse of market prices to 60 yen per ton.³

Seishi Nakamura also describes Shitagau Noguchi's foray into the artificial silk industry:

Full of progressive spirit, Noguchi subsequently made a foray into the Bemberg synthetic silk manufacturing. As a result of his success in synthesizing ammonia, he chose Bemberg synthetic silk as it made extensive use of ammonia. Noguchi acquired the Bemberg patent in Showa 3 (1928), established Nippon Bemberg Silk Thread Company the following year, and built a silk factory next to the ammonia factory in Nobeoka that he completed in April of Showa 6. ... In Showa 8, Asahi Silk Weaving, Nihon Bemberg Silk Thread, and an ammonia factory in Nobeoka (Nobeoka Ammonia Silk Yarn Company) merged to form a large artificial silk company called Asahi Bemberg Silk Thread Company.⁴

Asahi Bemberg Silk Thread Company would eventually become today's Asahi Kasei.

Noteworthy among Noguchi's innovative entrepreneurial activities was his move into the Korean Peninsula, a Japanese colony since annexation by Japan in 1910 (Meiji 43). Noguchi developed hydroelectric power and built an electrochemical complex there. The Korean peninsula has a mountain range along its eastern side, and to the west a relatively gentle slope down to the Yellow Sea. Several large rivers flow on that slope. In dam-style hydropower generation, which became technically feasible around that time, power generation capacity is determined by both the amount of water and the steepness of the waterfall. The western slope was suitable for the available water, while the eastern slope was ideal for the fall. This dilemma

³ *Ibid.*, p. 56.

⁴ Asahi Silk Weaving is a company established by Shitagau Noguchi with Matazo Kita in 1922. As of 1933, Kita was no longer involved in the business management of Asahi Silk Weaving. *Ibid.*, p. 59.

was difficult, but Noguchi resolved it by creating tunnels under the eastern mountain range. A dam was constructed on the western slope to secure a sufficient volume of water, then the water was transported by the tunnels to the eastern side, where it was used for electricity generation, taking advantage of the fall.

Noguchi also built large-scale dams on the Pujon River (in Japanese: Fusenko), Changjin River (Choshinko), and the Hochon River (Kyosenko), all tributaries of the Yalu River (Oryokuko) located on the border of Korea and Manchuria (northeastern China) and flowing westward. Then he generated electricity on the eastern slope and developed a large electrochemical complex in Hungnam (present-day Hamhung) on the east coast.

However, his hydroelectric development on the Korean peninsula led to a feud with Mitsubishi. Seishi Nakamura explains the background:

As for hydroelectric development in Korea, Mitsubishi had already applied for permission for water rights for the Pujeon and the Changjin Rivers. However, the Governor-General's Office⁵ also recognized Noguchi, then an enthusiastic budding entrepreneur, and granted water rights of the Pujon River to Noguchi and those of the Changjin River to Mitsubishi.⁶

The water rights of the Changjin River had been approved for Mitsubishi, and Noguchi had no control over them. But, despite having water rights, Mitsubishi showed no sign of starting development, and as they missed deadlines the project was extended through annual renewal procedures. The Governor-General's Office was calling for rapid power development throughout Korea, and Governor-General Kazushige Ugaki repeatedly urged Mitsubishi to start development and pressed the company to return the water rights if it had no intention to do so. Ultimately Mitsubishi was unable to decide and had to return the water rights. Noguchi took advantage of this opportunity and immediately applied to Ugaki for the transfer of the Changjin River water rights.

However, even after obtaining the water rights, financing posed another hurdle. Since its founding, Nichitsu had consistently benefited from Mitsubishi's financial support . . . The Changjin River project would be equivalent to swiping Mitsubishi's work, so the company could not expect financial assistance. In fact, at the Nichitsu board of directors' meeting, the plan was met with fierce opposition from Mitsubishi-linked executives. Noguchi, however, did not give up. The question was whether to opt for continued assistance from Mitsubishi or to press ahead with the Changjin River development. He finally decided to cut ties with Mitsubishi, his longtime backer, repay debts owed to Mitsubishi, and move forward with the Changjin River project. To replace Mitsubishi, the Industrial Bank of Japan was enlisted, as well as the Bank of Chosen and the Chosen Colonial Bank, through the arrangement of Governor-General Ugaki.⁷

In 1944 (Showa 19), the year before the end of World War II, Noguchi's work on the Yalu River led to the completion of the Suiho (Korean: Supung; Chinese: Shuifeng) Dam and Suiho Power Plant, which at the time had world-class 700,000 kW generating capacity.

Noguchi's speedy decisions to introduce new technologies, including nitrogen, ammonia, and artificial silk manufacturing from Germany and elsewhere, stood out

⁵ Governor-General of Korea was an organization established by the government of Japan to control Korea, which was colonized after the annexation.

⁶ *Op. cit.*, Nakamura, S. (1978), p. 64.

⁷ *Ibid.*, pp. 70–71.

and placed Nicchitsu well ahead of other companies. Noguchi also pursued merits of scale by building a large industrial complex on the Korean peninsula; its size exceeded even those on the Japanese mainland. In addition, he pursued economy of scope by developing an electrochemical industry from surplus electricity. These activities embodied economies of speed, scale, and scope, deemed the source of competitive success. Noguchi's entrepreneurial activities culminated in the establishment of Japan Nitrogenous Fertilizer Co. Along with Nissan Konzern, Nicchitsu Konzern became one of the leaders among emerging Konzerns.

Noguchi died in 1944, just before the end of World War II. Nicchitsu lost its factories and power plants on the Korean peninsula following Japan's defeat. The company returned to Minamata and restarted in 1950 as New Japan Nitrogenous Fertilizer Co. In 1965, the company changed its name to Chisso Corporation.

Brief Biography of Yoshisuke Aikawa

Yoshisuke Aikawa, the chief of the Nissan Konzern, was born in Yamaguchi Prefecture in 1880. Although he graduated from the prestigious Department of Mechanical Engineering at Tokyo Imperial University (now the University of Tokyo), he enlisted as a factory worker at Shibaura Seisakusho (predecessor of Toshiba). While his former classmates were earning around 45 yen a month as engineers in government offices and large companies, Aikawa started his career with a daily wage of 48 sen (100 sen = 1 yen). Historian Masaru Udagawa attributes this start to the following words of U.S. businessman Andrew Carnegie, which Aikawa encountered during his school days: "Boss your boss just as soon as you can; try it on early. There is nothing he will like so well if he is the right kind of boss; if he is not, he is not the man for you to remain with—leave him whenever you can, even at a present sacrifice, and find one capable of discerning genius" (Andrew Carnegie, *The Empire of Business*, 1913). Deeply impressed, Aikawa decided that he needed to gain hands-on experience on the factory floor.⁸

During his 2 years as a factory worker at Shibaura Seisakusho, Aikawa worked in sections handling finishing, machinery, manufacturing, sheet metal, assembly, and casting processes. "He was able to experience a variety of sections in such a short period of time because Shibaura Seisakusho gave him special considerations after his identity was exposed in the latter half of his first year there."⁹ "Identity" here refers to family connections. Aikawa's maternal great-uncle was (Japanese statesman) Kaoru Inoue, and the Aikawa family had close ties to the Mitsui, Kuhara, Furukawa, and Fujita families.

⁸See Udagawa, M. (2017). *Nissan no sogyosha Aikawa Yoshisuke (Nissan founder Yoshisuke Aikawa)* (pp. 26–27). Tokyo: Yoshikawa Kobunkan.

⁹*Ibid.*, p. 27.

Yoshisuke, gaining experience with a variety of work at Shibaura Seisakusho, traveled to the United States in 1905.

Upon his arrival in New York, with an introduction from Kaoru Inoue, Aikawa looked for employment through the local Mitsui & Co. branch office. Aikawa wanted to work at a factory where he could learn the techniques of steel pipe manufacturing and malleable cast iron manufacturing. He believed that the development and improvement of manufacturing technologies for steel pipes and malleable cast iron, foundational materials, were essential for the growth of Japan's machine industry. At the time, however, all steel pipe manufacturing companies in the U.S. kept techniques strictly confidential, so he looked for a malleable iron manufacturer. In January 1906 he was hired as an apprentice at Gould-Coupler's main plant in the suburbs of Buffalo with a salary of \$5 per week, and went to work at the plant while renting a room at the manager's house.¹⁰

Yoshisuke returned to Japan in 1907 and immediately began preparations to establish a company for manufacturing malleable cast iron. Three years later, he founded Tobata Casting Company. About the company, Masaru Udagawa wrote:

In June of Meiji 43 [1910] Aikawa established Tobata Casting Co. in Tobata, Kyushu, with funds and other forms of assistance from the Fujita (Tokyo), Kaijima, Kuhara, and Mitsui families, arranged through Kaoru Inoue. This was the start of his career as a business manager. [. . .] Tobata Casting, partly because it was the country's first producer of black-heart malleable cast iron, achieved financial independence at the outbreak of World War I and afterwards grew rapidly.¹¹

The contributing factor in Tobata Casting's improved performance was its prompt introduction of electric furnaces, starting in 1921 (Taisho 10). Even in Europe and the United States, these furnaces were not yet widely used. Consequently, Tobata Casting's international competitiveness grew as the company improved quality and lowered costs at the same time. Tobata's products became "the first among Japan's steel-related products to [successfully] enter the U.S. and European markets."¹²

After putting Tobata Casting on track, Yoshisuke became involved in the management of businesses owned by his relatives. In 1922 Aikawa established Kyoritsu Kigyo, which he described as a "konzern-like supreme organization for shareholding and management,"¹³ to oversee these additional businesses. Although Kyoritsu Kigyo lacked funds and never became fully functional, Aikawa learned some important lessons that later helped him in the formation of Nissan konzern. As Masaru Udagawa explains:

The management of a konzern centered around Kyoritsu Kigyo did not achieve its intended purpose. However, through the management of Kyoritsu, Aikawa learned [. . .] two business models that enabled him to form the Nissan group. One of them is that while the

¹⁰ *Ibid.*, p. 29.

¹¹ Udagawa, M. (1979). *Nissan kontserun no tenkai: Shinzoku grupu no keiei katudo no shutaisei (The development of the Nissan konzern: A compilation of the management activity of the family group)*. In *op. cit.*, K. Nakagawa, H. Morikawa, & T. Yui (Eds.), *The enlarged edition of basic knowledge of modern Japanese business history* (p. 205).

¹² *Op. cit.*, Udagawa, M. (2017), p. 36.

¹³ *Op. cit.*, Udagawa, M. (1979), p. 205.

management of a *konzern* with a holding company at its top is an effective governance structure for a group of companies, if the holding company itself does not have the ability to raise capital it will not be able to fully exercise its supervisory and managerial roles over its subsidiaries, not to mention diversify its operations into growth industries. Therefore, Aikawa learned that to successfully manage a *konzern* centered on the heavy chemical industry requiring a large amount of capital, it is essential to move away from a closed holding company based on specific families and relatives and shift to a public holding company that can raise funds directly on the stock market. Another thing he learned was the potential of corporate restructuring through mergers and acquisitions. Kyoritsu had investigated 40 to 50 companies as acquisition targets. Most of these companies had declined due to managerial moral hazard. Aikawa believed that a public holding company system would be an effective means of developing a corporate revitalization business. Regardless of the available funds on hand, a public holding company absorbs and acquires the target company by exchanging its own shares for those of the merged company. Aikawa came to realize that by sending out managers with a sense of fiduciary duty to shareholders, he could pave the way for the revitalization of the acquired company (Tetsuji Okazaki, "History of Holding Companies"¹⁴).¹⁵

Yoshisuke used his experience at Kyoritsu to form Nissan *konzern*. The first step in this process was in 1927 (Showa 2) when he took over the management of Kuhara Mining, then on the verge of bankruptcy; Aikawa, who had secured a lender and averted the bankruptcy of Kuhara Mining,

decided to use his experience at Kyoritsu, planning to fundamentally reorganize the entire Kuhara group and establish a management structure consisting of the head office organization and the business division. Based on this plan, in December of Showa 3 [1928], Kuhara Mining was reorganized as a holding company and renamed Nihon Sangyo (hereafter Nissan). Nissan then went public. Another goal of the reorganization was to open the way for the holding company itself to go public, absorbing funds from the general public to raise capital.¹⁶

The Kuhara *zaibatsu* was now transformed into the Nissan *konzern*, growing dramatically with its affiliated companies during the economic upturn triggered by the reimposition of the gold export ban in 1931. Masaru Udagawa explains the mechanism:

In Showa 8 [1933], Nissan acquired a huge amount of money by offering to the market, with a premium, some of the shares of Nihon Mining and Hitachi that were previously held only by group companies. The public offering of subsidiary company shares helped Nissan decrease the costs associated with controlling these companies, and the premium earnings came to constitute an important financial resource for Nissan. From then on, the income from the stock premium would account for a significant portion of the company's earnings each fiscal year. And with the new funds and increased dividends from subsidiaries, starting in Showa 9, Nissan made major inroads into diversified businesses.¹⁷

¹⁴Okazaki, T. (1999). *Mochikabugaisha no rekishi: Zaibatsu to kigyotochi (The history of holding companies: Zaibatsu and corporate governance)*. Tokyo: Chikumashobo Ltd.

¹⁵*Op. cit.*, Udagawa, M. (2017), pp. 66–67.

¹⁶*Op. cit.*, Udagawa, M. (1979), p. 205.

¹⁷*Ibid.*, p. 206. The expression "premium" in the quote refers to the surplus when a share is issued above par value. Note that par value stocks were abolished in 2001 when the Commercial Code was revised.

Nissan's rapid growth, achieved through its konzern operations and the share issuances at a premium, quickly made it the third-largest company group in Japan, after Mitsui and Mitsubishi.

Yoshisuke, obtaining funds through the premium share issuance of subsidiary companies, used the money to support full-scale entry into the automobile sector, a goal that he had been pursuing for some time. In 1931 he had already purchased a stake in DAT Motors and taken control of the company; in 1933 he established the Automobile Department at Tobata Casting, renamed Automobile Manufacturing Co. before being renamed again in 1934 as Nissan Motor Co.

Yoshisuke's plan was to localize automobile production in Japan. It would begin with "the expansion of the auto parts business and the mass production of the compact car Datsun," aiming eventually to "establish an automobile industry in 'Manchukuo.'"¹⁸ In 1935, the Nissan Motor Yokohama Plant, equipped with a conveyor belt system, was completed as a mass production site for the Datsun.

"In November 1937 (Showa 12), Nihon Sangyo, the core company of Nissan konzern, Japan's third largest business group, suddenly announced that it would relocate to a site affiliated with the South Manchurian Railway (Manchuria Railway) in the capital of Manchuria (Xinjing), change its name to Manchuria Heavy Industries Co. (Mangyo), and become the executing agency for the country's 'Five-Year Manchurian Industrial Development Plan.' Then, in December of the following year, with the abolition of extraterritoriality in Manchukuo, Mangyo became a Manchukuo corporation, and its capital base doubled to 440 million yen. The increase was funded by the Manchukuo government, and the company became aligned with Japan's national policy."¹⁹

Why did Yoshisuke decide to relocate Nissan konzern to Manchuria, a move that stunned the Japanese public? Certainly the tightening of the government's control over the economy and the stagnation of the stock market had a negative effect on the domestic business environment. The incentives offered by the Japanese and Manchukuo governments for companies to expand their operations into Manchuria likely also played a role. However, Yoshisuke's decision was fundamentally based on the dream he had for the new land of Manchuria. This is evidenced in Nissan's localization plan for automobile production that treated Manchukuo as its target location.

However, as the Sino-Japanese War grew into a full-scale conflict, with Japan struggling in the battlefield, Yoshisuke's plan ended as "an unfulfilled dream." Japan's defeat in World War II resulted in the loss of all Nissan assets in Manchuria, and the postwar breakup of the zaibatsu led to the dissolution of the Nissan konzern itself.

After the war, Yoshisuke retired from the frontline of business, but at the request of the government, became president of Teikoku Oil and chairman of Japan Petroleum Resources Development, two state-sponsored companies. In 1953 he became a

¹⁸See *op. cit.*, Udagawa, M. (2017), p. 41.

¹⁹*Ibid.*, p. 100.

member of the House of Councilors, and in 1956 formed Japan SME Political Federation to focus on promoting small and medium-sized businesses. Yoshisuke Aikawa died in 1967.

“Yoshisuke Aikawa, Founder of Nissan” by Masaru Udagawa

Masaru Udagawa has written an excellent biography of Aikawa, “Nissan founder Yoshisuke Aikawa” [Nissan no Sogyosha Aikawa Yoshisuke] (Yoshikawa Kobunkan, 2017), quoted in the previous section. I contributed a review of the biography to the *Weekly Economist*²⁰ and share its contents here.

“Yoshisuke Aikawa, Founder of Nissan” by Masaru Udagawa (Yoshikawa Kobunkan, 2017), is a critical biography. It is a compilation of research findings by Udagawa, a leading researcher on Nissan Konzern and Nissan Motor. To avoid duplication with his earlier published works, Udagawa describes in detail Aikawa’s activities as a social entrepreneur after World War II. His social endeavors have not been given much attention in the past and Udagawa offers an in-depth look at the innovative nature of Aikawa’s activities.

Aikawa’s actions as a social entrepreneur can be seen in three areas: 1) power source development, 2) road development, and 3) support for small- and medium-sized businesses. Power source development led to the establishment of Electric Power Development Company (J-Power), and road development led to the establishment of the Japan Highway Public Corporation. Eventually, Aikawa’s interests focused on providing support for SMEs, and in 1956, he formed a new political party, SME Political League (Chusho-kigyo Seiji Renmei/Chuseiren). Aikawa, the first president of Chuseiren, maintained that self-interested behavior and the resulting excessive competition was “endemic to SMEs,” and called for “collective action” to eradicate them. The 1957 passage of the Small and Medium-Sized Business Association Law was the fruit of his efforts.

Udagawa organizes Aikawa’s business operations using Schumpeter’s five categories of innovation: First, the production of malleable iron products corresponds to Schumpeter’s “production of new products and new quality products”; Second, the introduction of an electric furnace for malleable cast iron production and the introduction of a conveyor belt system for automobile production correspond to Schumpeter’s “introduction of new production methods”; Third, the cultivation of the European and U.S. markets for malleable iron products (especially iron pipe fittings) corresponds to “development of new markets”; Fourth, the exploitation of underground mineral resources in the “Five-Year Manchurian Industrial Development Plan” corresponds to “a new source of raw material supply”; and Fifth, the creation of a public stock company and the establishment of a cross-sectional corporate group structure (Konzern) and the introduction of a venture capitalist system correspond to Schumpeter’s “establishment of a new industry and management organization.”

Aikawa’s life can be likened to four hiking trails, full of ups and downs with uncharted paths: (1) the establishment of Tobata Casting and Nihon Sangyo, (2) the formation of Nissan Konzern, (3) the management of Mangyo Konzern (Manchuria Heavy Industries

²⁰Kikkawa, T. (2017). Shohyo Udagawa Masaru-cho Nissan no sogyosha Aikawa Yoshisuke (*Book review: Nissan founder Yoshisuke Aikawa by Masaru Udagawa*). Shukan ekonomisuto (*The Weekly Economist*), 18 July.

Development Co.), and (4) activities as a social entrepreneur. In each of these trails, Aikawa's footprints were conspicuous for their innovative nature.

Of the four trails, Aikawa succeeded in (1) and (2) but failed to achieve significant results in (3) and (4). Utagawa, however, attributes this failure to being "too far ahead of his time and too visionary" (p. 223). For example, the integrated development method adopted by Aikawa in Mangyo was carried over to the development of China's northeastern region after World War II.

Masaru Udagawa's discussion showing the innovative nature of Aikawa's entrepreneurship by relating it to Schumpeter's theory of innovation is fascinating. However, it should be noted that Aikawa's overall accomplishment was closer to "creation of a new equilibrium" than "destruction of an equilibrium." The production of malleable iron products, the introduction of electric furnaces and conveyor belts, the cultivation of European and U.S. markets, the creation of public stock companies, the establishment of *konzerns*, and the introduction of the venture capital system were not, in themselves, breakthrough innovations. Thus, Aikawa was an incremental innovator.

As an incremental innovator, Shitagau Noguchi was similar. The industrial-scale manufacturing of lime nitrogen, ammonium sulfate, and artificial silk was the outcome of his introduction into Japan of foreign technologies. Similarly, the large-scale hydroelectric development on the Korean peninsula was not the "world's first" attempt. Noguchi, too, was an incremental innovator. This in no way diminishes the innovative nature of Aikawa's and Noguchi's entrepreneurship. They were noteworthy innovators both in terms of scale of their operations and audacity in taking on new challenges.

Expansion into the Asian Continent

In [Case 12](#), we focused on Shitagau Noguchi, the creator of Nicchitsu *konzern*, and on Yoshisuke Aikawa, the creator of the Nissan *konzern*. New *konzerns* such as Nicchitsu and Nissan were unsuccessful in the long run. During the war and after 1937 (Showa 12), many new *konzerns* faced difficulty due to sluggish stock markets, inability to obtain materials, and competition with established *zaibatsu*, forcing them to either dismantle or reorganize. The loss of large-scale investments made by Nicchitsu on the Korean Peninsula and by Nissan in Manchuria due to Japan's defeat in WWII also hastened their downfall.²¹

²¹As pointed out by Udagawa, Masaru and Sue, Kunio, the hegemony of the "Four *Zaibatsu*," namely Mitsui, Mitsubishi, Sumitomo, and Yasuda, also stemmed from the relationship with the new *konzerns*. See *op. cit.*, Udagawa, M. (1984). (*New Zaibatsu*) (p. 9).; Sue, K. (2000). *Manshujihen sono boppatsugen'in wo saguru: Senkyuhyakunijunendai ni okeru zaibatsushihon no henseigae to jukagakukogyoka (To search of the cause of the outbreak of the Manchurian Incident: The reorganization of financial conglomerate capital and heavy chemical industrialization in the 1920s)* Nihondaigaku keizaigakubu keizaikagaku kenkyujo-kiyō (*The Journal of Research Institute of Economic Science*, No. 29), p. 300.

Nevertheless, their daring foray into the Asian continent should be recognized as a manifestation of innovative entrepreneurship. Major risk was inherent in such moves, but the emergence of these entrepreneurs who made large-scale investments despite the risk symbolized the dynamism of the Japanese economy, which continued to achieve long-term growth nearly until the final decades of the twentieth century.

As Japan's sphere of influence expanded to the Asian continent in the period leading to World War II, the activities of Japanese entrepreneurs extended to the continent. Noguchi of Japan Nitrogenous Fertilizer built one of the world's largest dam-type hydroelectric power plants in the northern part of the Korean Peninsula, creating a major electrochemical complex. Aikawa of Nihon Sangyo gradually shifted his focus from Japan to Manchuria (northeastern China) and devoted himself to developing Manchuria.

Furthermore, Sazo Idemitsu, the oil merchant to be discussed in [Case 13](#), expanded his branch network not only in the Japanese-controlled territories of Korea, Taiwan, and Manchuria, but also throughout China. The assets that Noguchi, Aikawa, and Idemitsu had built up on the Asian continent were lost with Japan's defeat in the war. While Noguchi died at the end of the war and Aikawa withdrew from corporate management, Idemitsu remained on the frontline, quickly regaining his footing in the devastating aftermath of Japan's defeat. Idemitsu advocated the policy of "no layoffs," and transformed Idemitsu Kosan into the "hero of native oil companies."

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 13 Sazo Idemitsu: From “Oil Merchant of the Continent” to “Hero of Native Oil Companies”



Abstract This chapter introduces Sazo Idemitsu, who established Idemitsu Kosan as the number one native oil company in Japan, and its overseas expansion and growth.

The Miracle of the Nissho-Maru

Sazo Idemitsu was another businessman who boldly ventured out of Japan before World War II, but whose business was badly damaged by Japan’s defeat.¹ The defeat was a turning point as he drastically transformed his business from “oil merchant of the continent” to “hero of native [Japanese] oil companies.”

In 1953 (Showa 28), only eight years after the defeat that had reduced all major Japanese cities to ashes, Idemitsu Kosan, led by Sazo Idemitsu, drew international attention by sending its ship Nissho-Maru II to Iran to purchase a large quantity of oil for transport to Japan. Iran was then involved in a dispute with Britain over the nationalization of the Anglo-Iranian Oil Company, and the “Nissho-Maru Incident” caught the world’s attention as it undercut the boycott of Iranian oil by the world’s oil majors. The “Brief History of Idemitsu” published by Idemitsu Kosan in 1964, describes the events:

This was a daring move to directly link Iran, the world’s leading oil producer, with Japan, a major oil consumer. As a result, the price of domestic oil products fell by tens of billions of yen a year, providing a tremendous benefit to consumers. The British Anglo-Iranian Oil company (AIOC) filed a lawsuit requesting a provisional injunction for the seizure of oil products shipped by Nissho-Maru to Japan, but the Tokyo District Court and the Tokyo High Court refused it, ending in Idemitsu’s triumph. His resolve not to yield to British coercion gave confidence and courage to the general public whose spirit was low as a result of Japan’s defeat in the war (p. 46).

For the Japanese people, devastated by the war, Idemitsu’s “Nissho-Maru Incident” was truly a miraculous event as a triumphant, head-on confrontation with the United

¹For details of Sazo Idemitsu, see Kikkawa, T. (2012b). *Idemitsu Sazo: Ogon no dorei tarunakare (Sazo Idemitsu: Don’t be a slave to gold)*. Kyoto: Minervashobo.

Kingdom, a core country of the Allied Powers. The miracle of Nissho-Maru, catapulted Sazo Idemitsu to prominence as a highly popular business leader in postwar Japan. It also served as a catalyst for the Japanese economy’s recovery, namely, the rapid economic growth that began in the mid-1950s.

Idemitsu’s Overseas Expansion

Challenging powerful entities was a way of life for Idemitsu throughout his life, beginning even before World War II.

Born in 1885 (Meiji 18) in Akama Village, Munakata County (present-day Akama, Munakata City), Fukuoka Prefecture, Sazo Idemitsu was taught by Renkichi Uchiike at Kobe Higher Commercial School (Kobe Kosho, present-day Kobe University.), which Sazo entered in 1905. Uchiike told him about the social nature of commerce, meaning “speculative merchants would become unnecessary in the future, and that only merchants who would serve as distributors between producers and consumers, fulfilling their social responsibility, would survive.²” Idemitsu was deeply moved by this lesson, and later came to make it his business philosophy to place the highest priority on consumers’ interests by advocating ideas such as “from producer to consumer,” “large-area retailing establishing directly run stores over a wide area, eliminating the middlemen,” and “consumer-orientation.”

In 1911, two years after graduating from Kobe Kosho, Idemitsu established his own company, Idemitsu Shokai, selling petroleum products. Idemitsu Shokai was financed by Jutaro Hida, a wealthy Awaji resident with whom Idemitsu became acquainted during his time at Kobe Kosho.

Idemitsu Shokai, established just before World War I, subsequently focused on Japanese-controlled East Asia and surrounding areas, implementing Idemitsu’s policy of “large-area retailing.” Idemitsu Shokai, founded in June 1911, was integrated into an affiliate company, Idemitsu Kosan, established in March 1940 (Showa 15), ceasing to exist in November 1947. During this period, Idemitsu continuously served as the leader of Idemitsu Shokai. The 37 years of Idemitsu Shokai’s history can be divided into the following periods in terms of their overseas business evolution:

1. From 1911, when Idemitsu Shokai was founded, through the opening of its Dalian office in 1916, to 1918 (Taisho 7) when Idemitsu Shokai established a foothold in “Manchuria” (northeastern China. The term “Manchuria” is employed here as the name used by Idemitsu Shokai at that time.)
2. 1919 to 1930 (Taisho 8 to Showa 5), when the company expanded into northern China, Siberia, Korea, and Taiwan.

²Idemitsu Kosan Co., Ltd. (1964). *Idemitsu ryakushi (A brief history of Idemitsu)* (p. 5). Tokyo: Idemitsu Kosan.

3. 1931 to 1936, when the emphasis was placed on foreign regions. The focus of overseas operations shifted to Manchuria as well as the rest of China.
4. 1937–1941, when the company focused on overseas operations, increasing its activities in China outside of Manchuria.
5. 1942 to August 15, 1945, when existing overseas operations faced hardship during World War II, but expanded into the South.
6. August 15, 1945 to 1947, after losing all overseas operations and assets due to Japan’s defeat, until the company was integrated into Idemitsu Kosan.

The developments of Idemitsu Shokai and Sazo Idemitsu can be traced through their words and actions during each of these periods.

Expansion into Manchuria and Delivery of Axle Oil to the South Manchuria Railway

In Manchuria during the first period, Russian-produced oil’s share shrank after the Russo-Japanese War, and the market was dominated by three Anglo-American companies: Standard Oil, Asian Petroleum (a Shell affiliate), and Texas Petroleum. Standard Oil, in particular, had tremendous power in the Manchurian market. Japanese oil companies were hesitant to enter the Manchurian market because Japanese petroleum products faced disadvantageous conditions in transportation costs, tariffs, and quality standards.

The South Manchuria Railway (Manchuria Railway) imported locomotives, passenger coaches, and freight cars from the U.S., and all lubricating oil used in these trains was also made in the U.S. After developing a comparable axle oil using Japanese petroleum products, Idemitsu approached various contacts associated with the Manchuria Railway to carry out analytical testing. After two years of analysis and tests it was found safe to use. At the next round of cost estimates, Idemitsu offered to deliver at half of Standard Oil’s delivery price.

Idemitsu’s sales efforts left a strong impression on Manchuria Railways, creating interest within the railway company to actively use Idemitsu’s machine oil. Idemitsu Shokai thus began delivering axle oil (lubricating oil) to Manchuria Railways in 1914.³ Idemitsu recounts the circumstances that led Manchuria Railways to purchase his company’s axle oil:

I first asked for an analytical test, and then a field test. Then I asked them to designate a branch line to carry it out. That was the Fushun Line. As I asked for the field test so eagerly,

³See The Idemitsu History Compilation Office, Kwantung Leased Territory Manchurian Idemitsu History Investigation Committee (Eds.) (1958). *Kantoshu Manshu Idemitsu-shi oyobi Nichiman seiji keizai ippan jokyo chosa shiryō shuroku (History of The Kwantung Leased Territory Manchurian Idemitsu and investigations on the general situation of Japan–Manchuria politics and economy)*, pp. 17–23; and Idemitsu Kosan Co., Ltd. (Ed.) (1970). *Idemitsu gojunen-shi (The fifty years’ history of Idemitsu)* (pp. 102–104). Tokyo: Idemitsu Kosan.

an engineer from the Manchuria Railway offered me the oil testing factory at the Shahekou plant of the Manchuria Railway. The factory had all kinds of testing machines, but none of them were being used and were collecting dust. I was provided with a technician, so I completed most of the practical tests that required machines. Fortunately, we obtained good test results, so we then conducted a field test on the Fushun line and it performed as well as foreign products. Then they decided to give us some business.⁴

Beginning with the delivery of lubricating oil to the Manchurian Railway, the company began to handle cement, volcanic ash, machinery and tools, in addition to petroleum products. In April 1916, Idemitsu Shokai opened its Dalian Branch Office—its first ever location beyond the head office, inside or outside of Japan.

During the abovementioned second period, Idemitsu Shokai achieved steady growth. The driving force was active expansion of distribution channels in East Asian regions.

Looking at the sales of Idemitsu Shokai by branch in 1929, the Dalian branch (1,074,782 yen) boasted the largest sales, followed by the Shimonoseki branch (1,073,038 yen). These were followed by Keijo (Kyeongseong/Seoul) branch (996,968 yen), Moji branch (979,351 yen), Taipei branch (931,050 yen), and Hakata branch (703,948 yen). Sales at the Wakamatsu branch (16,037 yen) were limited.⁵ Clearly, the expansion of distribution channels in Manchuria, Korea, and Taiwan played a major role in the company’s growth in the decade after World War I.

By 1929 the largest sales volume among all branches was found in Manchuria’s Dalian Branch, established in 1916 as the Dalian Outpost Office. Significant for its business expansion was the development of “No. 2 winter weather proof axle oil” for the Manchuria Railway.

In Manchuria’s extremely cold weather, the freezing of lubricating oil caused the axles of freight cars to overheat, taking a heavy toll on Manchuria Railway’s operations. Idemitsu Shokai began supplying axle oil to the Manchurian Railway in 1914, and in 1917 submitted 300 cans of “No. 2 winter weatherproof axle oil” as a sample batch. A year passed without any response, so the company tried to contact the railway but found it impossible to make any progress because the section chief in charge had been replaced. Manchuria Railway had an inventory of axle oil made by non-Japanese oil companies, which had been prioritized.

However, in early 1918, the axles of several hundred Manchurian Railway freight cars were damaged by overheating, resulting in a loss of 3-four million yen. Idemitsu Shokai was then called in by the Manchurian Railway and participated in the field tests in Changchun in extremely cold weather. Four types of axle oil were for testing: Vacuum, Standard Oil, Idemitsu’s regular winter weather oil that it had supplied in the past, and “No. 2 winter weatherproof axle oil” that Idemitsu submitted as a

⁴*Op. cit.*, The Idemitsu History Compilation Office, Kwantung Leased Territory Manchurian Idemitsu History Investigation Committee (Eds.) (1958), pp. 22–23.

⁵See The Hakata Idemitsu History Research Committee and the Idemitsu History Compilation Office, the General Affairs Division (Eds.) (1959). Hakata Idemitsu-shi narabini ichibu honten jokyō chosa shuroku (*History of Hakata Idemitsu and investigation records of the head store*), p. 59. Note that the total amount of the sales by the seven branches was 5,775,174 yen.

sample. In the test, only No. 2 winter weatherproof axle oil performed flawlessly; in contrast, Vacuum’s product performed the worst.

Sazo Idemitsu recounts the process and results of the field test as follows.

The Manchurian Railway burned most of the freight car axles. Winter was the season for transporting soybeans, and the transportation of soybeans was halted. At that time, the loss in freight fare was 3.4 million yen, and the indirect damage was enormous. The Manchurian Railway was severely criticized.... After conducting various oil tests in Changchun, we decided to test the [lubricant] oil in an actual train. They took out a locomotive and lubricated the four axles with different oils. One was Vacuum’s oil, which ended up burning, one was Standard’s quality oil used in the past, one was Idemitsu’s regular winter oil, and one was the sample I had brought with me. We loaded the four different types of oil and drove to Gongzhuling in the middle of the night and returned. The results showed that, with Vacuum’s oil, the wool had popped out of the axle box [journal box], and wool packing saturated with oil flew out, so it was only natural that it would burn. Next, [wool packing saturated with] Standard’s oil was half overhung and half remained inside the box. With Idemitsu’s normal winter weather oil, about half moved from under the axle into the box interior and was not yet burned but was going to burn. The sample winter weatherproof oil [No. 2 winter weatherproof axle oil] was perfectly contained under the axle and had not moved an inch. It was rare for the results to be so clear, so they decided that this oil was the one, making the decision based on actual performance.⁶

The two foreign oil companies had previously suggested to the Manchurian Railway that the box covers be tightened more securely to prevent freezing of the axle oil, but they did not refer to the performance of the oil itself.

Based on these test results, it was natural for the railway to fully adopt the “No. 2 winter weatherproof axle oil” supplied by Idemitsu Shokai. This oil eliminated freight car burnout accidents.

Pursuing an “Emphasis on Overseas Territories”

In the third period, Idemitsu Shokai shifted its emphasis to opening outlets abroad rather than in Japan. The tightening of petroleum controls by the government increased restrictions on business activities, leading the company to focus on overseas locations. However, it was not only on the Japanese mainland that state control over the oil industry was tightened in the mid-1930s—the same occurred in Manchukuo established by Japan in 1932, and in the Japanese colony of Korea.

The Mukden Incident (the Manchurian Incident) in September 1931, along with the banning of gold exports introduced again in December 1931, the establishment of Manchukuo in March 1932, and the establishment of Manchurian Petroleum in February 1934, had a significant impact on Idemitsu Shokai’s business activities in Manchuria, which were centered in its Dalian Branch. The implementation of an oil

⁶*Op. cit.* The Idemitsu History Compilation Office, Kwantung Leased Territory Manchurian Idemitsu History Investigation Committee (Eds.) (1958), pp. 99–100.

monopoly system in Manchuria through the establishment of Manchurian Petroleum had a particularly large impact.

The company’s response to the tightening of oil controls in Manchuria and its response to the oil crisis is described in the 11th edition of “Brief History of Idemitsu” (2008, Education Section, Human Resources Department, Idemitsu Kosan Co.):

In Showa 7 (1932), after the establishment of Manchukuo, the government sought to control key industries in the country under a policy to rein in capitalists, pressing ahead with an oil monopoly. Idemitsu opposed this erroneous policy and did its utmost to correct it, but the authorities refused to listen. Finally, in Showa 10 (1935), the petroleum monopoly policy was implemented in Manchukuo. Not only did the authorities reject Idemitsu’s advice, they also regarded Idemitsu as a mere capitalist commercial enterprise, and placed the company in such a difficult situation that at one point the Idemitsu began to prepare for withdrawal from Manchuria. With the tightening of controls on various commodities, commercial rights that had been cultivated over the past 20 years were taken away by a single piece of legislation. Almost all of Idemitsu’s products were subject to state control. The bulk of the company’s operations came to consist of distribution activities under the government’s rationing system.

Regarding petroleum products, with the implementation of the monopoly law, Idemitsu was solely responsible for the sale of machinery oil (a freely marketable product) made by Manseki (Manchurian Petroleum Company, founded in Showa 9) in Manchuria. However, Idemitsu helped ration fuel oil (subject to the monopoly policy) as a member of sales control companies located throughout Manchuria.

But Idemitsu, who had not been covered by powerful capitalists under the past free economic environment, was predictably discontented with simply being the watchdog of laws and institutions under the state-controlled economy. Gradually, Idemitsu’s capabilities, built from on-the-ground experience, naturally surfaced, and the authorities had little choice but to rely on Idemitsu’s practical expertise. Much of the work, including the distribution of fuel oil, a monopoly commodity, and the importation of goods for mobilization (goods covered under the Materials Mobilization Plan), was entrusted to Idemitsu, who became busier than before the Mukden Incident (pp. 17–18).

Idemitsu Shokai was adamantly opposed to the oil monopoly system in Manchuria that denied it freedom of business activity. Despite this opposition, the oil monopoly system was enforced and dealt a heavy short-term blow to the company’s Manchurian business activities. Over time, however, Idemitsu’s field of activity gradually expanded and its business in Manchuria even expanded under the oil monopoly system. Thus a kind of “reverse phenomenon” occurred in Manchuria, in which Idemitsu Shokai was constrained in the short term under the tightening of oil controls, but managed to expand the scale of its business over the long run.

As restrictions on Idemitsu Shokai’s business activities in Manchuria and Korea intensified, the company shifted its business focus outside of Manchuria to China. The first step was to enter Shanghai, a stronghold of foreign oil companies. Idemitsu Shokai opened its Shanghai branch in 1935.

The fourth period began with the outbreak of the Japan-China Incident in July 1937. Idemitsu Shokai’s sales in fiscal 1938 (by region and branch) were as follows: the largest sales volume was in Manchuria (16,842,050 yen in total for the Dalian branch and Manchuria combined), followed by China outside Manchuria (13,456,526 yen). Sales in Japan (7,982,595 yen) were higher than those of the

Gyeongseong branch in Korea (4,303,730 yen) and the Taipei branch in Taiwan (4,180,618 yen), but did not even surpass that of the Dalian branch (9,806,658 yen).⁷

Hence, as of 1938, Idemitsu Shokai was already focused on overseas operations, with an emphasis on Manchuria and China. This policy was thoroughly reinforced at a meeting of company branch managers held at the head office in Moji (in Fukuoka Prefecture) in December 1938. At the opening of this meeting, the branch owner, Sazo Idemitsu, made the following statement:

As you are aware from the newspapers, as a result of the national policy to tighten controls over foreign exchange and industry, the oil industry has decreased production of petroleum and machine oil, and Idemitsu’s business in Japan has been following an uninteresting path, but I am very happy to hear that business in Manchuria is growing steadily and that North China is developing as an extension of Manchuria. . . .

In the continent, we need to consider all angles to work on various tasks. Whether the achievement of expected results even in these [tough] times is from good fortune or from past sacrifices, I would like to express my gratitude to all of you for your efforts. I would also like to ask you how we can continue to make good progress on the continent, and how we can further develop our business. I wish you all the best in your endeavors.⁸

Sazo Idemitsu announced clearly that he would increasingly focus on his growing overseas business. Idemitsu Shokai, which had established a policy of actively pursuing business overseas while cultivating opportunities in Japan, reorganized its corporate structure from 1939 to 1940, shifting from a single company system under Idemitsu Shokai to a four-company structure (Idemitsu Shokai, Idemitsu Kosan, Manchuria Idemitsu Kosan, and China Idemitsu Kosan).

As of May 1942, the total number of personnel in these four Idemitsu companies reached 1095. The breakdown by company: Idemitsu Shokai (246 employees), Idemitsu Kosan (361 employees), Manchuria Idemitsu Kosan (105 employees), and China Idemitsu Kosan (383 employees). The breakdown by region was as follows: Japan (319), Korea (85), Taiwan (123), Kwantung Leased Territory and Manchuria (185), and China other than Manchuria (383).⁹

In the period after the Second Sino-Japanese War, as the Japanese military occupied more and more territory, oil controls by the military expanded to cover a wider area. However, even there, a kind of ‘reverse phenomenon’ occurred, in which Idemitsu was constrained in the short term under the tightened oil controls but expanded its business scale in the long term. This reverse phenomenon that first appeared in Manchuria occurred again in China after the Second Sino-Japanese War

⁷See Korean Idemitsu History Research Committee and History Compilation Office, the General Affairs Division (Eds.) (1959). *Chosen Idemitsu-shi oyobi Chosen seiji keizai ippan jokyo chosa shiryō shuroku (Records on Korean Idemitsu history and investigations on the general situation of Korean politics and economy)*, p. 208.

⁸*Op. cit.*, The Hakata Idemitsu History Research Committee and the Idemitsu History Compilation Office, the General Affairs Division (Eds.) (1959), pp. 97–98.

⁹Idemitsu Kosan Co., Ltd., Personnel Affairs Division, Education Section (Ed.) (2008). *Idemitsu ryakushi daijuichihan (Brief history of Idemitsu)*, Vol. 11, Appendix Table. Tokyo: Idemitsu Kosan.

as the company expanded its storage network throughout China and opened a large-scale oil depot in Shanghai.

Construction of Idemitsu’s Shanghai oil depot, with a storage capacity of 50,000 tons, began in August 1939 and was completed in April 1940. The local Japanese military authorities provided the land and encouraged the construction of the oil depot. Idemitsu purchased the materials needed for construction from the U.S. using the foreign currency it had on hand. Of the oil imported from the U.S. and stored at Idemitsu’s Shanghai depot, kerosene was used for civilian purposes throughout China and Manchuria, while gasoline was supplied to the military.¹⁰

Deployment to the South and Japan’s Defeat in World War II

The fifth period corresponds to Japan’s engagement in World War II. The 11th edition of “Brief History of Idemitsu” cited earlier describes the company’s operations in China during World War II as follows:

As relations with Britain and the U.S. became increasingly tense on the Chinese mainland, Idemitsu scrambled to arrange emergency imports of petroleum products in case foreign imports were halted. Idemitsu also scoured products available on the market, striving to secure them. When the Pacific War broke out, Japan had no choice but to replace U.S. and British oil supplies in China. However, other than Idemitsu’s oil reserves, there were almost no other stocks of civilian oil. As the oil on hand was also under government control, Idemitsu devoted itself to the distribution of civilian oil under the rationing system. As supplies became increasingly tight, Idemitsu focused its efforts on purchasing and producing substitute fuel oil and lubricating oil in accordance with the government’s policy of local self-sufficiency. It also tried to tow oil from the south by private vessels. During the war, the company played an important role in the national oil policy in mainland China, constantly attempting to guide the authorities’ oil policy in the right direction (pp. 26–27).

In the six months following the outbreak of war between Japan and the United States in December 1941, large areas of Southeast Asia and the Southwest Pacific were occupied by the Japan’s Imperial Army and Navy. Military rule was imposed in these areas, and the oil resources in the region were to be used for military purposes as well as to supply local civilian needs.

At first, the local Japanese forces planned to establish an enormous oil distribution organization that would require approximately 2000 employees, and sought approval from the Defense Ministry. However, the Ministry rejected the plan based on its experience with the dysfunctional distribution system in China, and appointed Idemitsu to handle the task. In 1942, Idemitsu, entrusted with the task of rationing

¹⁰See: The Research Committee for the History of Oil Depots in Shanghai and the Compilation Office of the History of Idemitsu, the General Affairs Division (Eds.) (1959). *Idemitsu Shanghai yusojo-shi narabini Chuka Idemitsukosan jokyo chosa shuroku (genko) (Records of the history of Idemitsu Shanghai oil depots and investigations on the situation of China Idemitsu Kosan (draft))*, pp. 27–36.

civilian oil supplies in the territories occupied by the Japanese army, dispatched more than a hundred personnel to the south as military attachés.

Immediately after their deployment, very serious “anti-Idemitsu sentiment” arose among Japan’s Southern Expeditionary Army. Although the deployed Idemitsu personnel faced challenges, they were efficient in their work in various locations and were able to get difficult tasks on track in a short period of time. As a result, the hostility toward Idemitsu that had been simmering within the local military gradually dissipated, and they even began to provide active support. In 1943, Idemitsu was also entrusted with oil rationing operations in areas in the south occupied by the Japanese navy.¹¹

In July 1942, Sazo Idemitsu offered the following encouragement to his employees heading south:

The new territory in the south is a blank sheet of paper. There are no customs or prejudices. In this new land of our own, we are trying to make a vast and complicated project simple and easy, and thereby manifest our true strength. This should not be considered merely a trivial matter in oil rationing. It should be a major mission for the nation. Moreover, we should be aware that this is a mission that only we can accomplish.¹²

With defeat on August 15, 1945, Japan lost its colonies in Korea, Taiwan, and South Sakhalin, and became an occupied country of the Allied Powers led by the United States. This is the sixth period.

During the war, most of Idemitsu’s domestic business was absorbed by a state-controlled company, and after defeat the overseas business that had been its focus was totally lost. The company was in a serious predicament – all that remained were approximately 1000 employees and debts of approximately 2.5 million yen.¹³

Amidst growing unease over such a “fresh start from negative territory,” Sazo Idemitsu said in September 1945:

Looking back on Idemitsu’s operations in Japan, only a small fraction of the company’s business remained after it was taken over by a state-controlled company during the war. Our operations in Taiwan, Korea, Manchuria, China, and the entire southern region were [figuratively] destroyed by the atomic bomb. Although Idemitsu had invested a considerable amount of its domestic funds overseas, neither the principal nor the profits were repatriated from abroad. Thus, Idemitsu was left with debts in Japan. Although the business disappeared and the debt remained, Idemitsu had 800 human personnel overseas. This is the only capital we have, and this is what will make our future business. Idemitsu, with its respect for individual human beings, should not be so rash as to lay off its personnel just because the war ended [in defeat].¹⁴

¹¹Idemitsu Kosan Co., Ltd., Store Manager Office (Eds.) (1994). *Tsumikasane no nanajunen (Seventy years of experience)* (pp. 306–315). Tokyo: *Op cit.*, Idemitsu Kosan; Idemitsu Kosan Co., Ltd., Personnel Affairs Division, Education Section (Ed.) (2008). (pp. 27–29).

¹²Idemitsu, S. (1962). *Ningen soncho gojunen (Fifty years of respect for people)* (p. 143). Tokyo: Idemitsu Kosan.

¹³*Op. cit.*, Idemitsu Kosan Co., Ltd., Store Manager Office (Eds.) (1994). (*Seventy years of experience*) (p. 543).

¹⁴Idemitsu, S. (1972). *Waga rokujunenkan daiikkan: Sogyo yori showa sanjuyonen (My sixty years, Vol. 1: From the company's foundation to Showa 34)* (p. 156). Tokyo: Idemitsu Kosan.



President Sazo Idemitsu at a press conference at Idemitsu Kosan’s Kawasaki Oil Terminal in 1962 (Courtesy of The Asahi Shimbun/Jiji Press Photo)

To have expressed such a quick and clear “no layoffs” policy in an extremely difficult business environment was an exceptional act in the social climate of the time.

Transformation into “Hero of Native Oil Companies”

Despite suffering a major blow with the loss of its overseas branches in 1945, Idemitsu Shokai made a fresh start in 1947 by transferring its business to its subsidiary Idemitsu Kosan (at that point, Sazo Idemitsu was also president of Idemitsu Kosan as an owner-manager). Idemitsu was designated by the Japan Oil Distribution Public Corporation as a distributor in 1947, followed by its designation as a wholesaler in 1949.

Sazo Idemitsu became the “Hero of native oil companies.” It did not team up with foreign companies and it implemented daring strategies as seen in the Nissho-Maru Incident in 1953. Idemitsu Kosan developed its business with financial support from the Bank of Tokyo and Tokai Bank, constructing the Tokuyama Refinery in 1957, building the [tanker] Nissho-Maru III in 1962, and constructing the Chiba Refinery in 1963. During this period, Idemitsu Kosan’s share of the Japanese oil market rose rapidly, from 8.6% in 1950 to 14.3% in 1960, and its share of refining capacity rose from 0% in 1955 to 13.7% in 1960. Sazo became chairman of Idemitsu Kosan in 1966; he retired from that position in 1972, and died in 1981.

In this case study we looked at the entrepreneurial activities of Sazo Idemitsu, focusing on the “oil merchant of the continent” aspect of his prewar years. The long period of strong growth in the Japanese economy from around the start of World War I through the 1980s was driven by a series of innovative entrepreneurial activities that primarily focused on the domestic market, but through this case, I wanted to show that there were some examples, although few, geared toward foreign markets.

Like Shitagau Noguchi and Yoshisuke Aikawa, Sazo could not escape the loss of his overseas assets and operations due to Japan’s defeat. Unlike Noguchi and Aikawa, however, Sazo revived himself phoenix-like as an innovative entrepreneur after the war, transforming from “oil merchant of the continent” with sights set on overseas expansion to “hero of native oil companies” focused on the domestic market.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter’s Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter’s Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 14 Yataro Nishiyama: Leader of Capital Investment Drives High Economic Growth



Abstract This chapter introduces Yataro Nishiyama, president of Kawasaki Steel (the predecessor of today’s JFE Group), that drove high economic growth in the Showa period.

A Decade of Revitalization

The “Lost Decade” denotes the 1990s when the Japanese economy was mired in uncertainty after the bursting of the economic bubble. The term “second defeat” has also been often used, comparing the 1990s to Japan’s defeat in World War II, after events such as the acquisition by a U.S firm of bankrupt Long-Term Credit Bank of Japan (becoming Shinsei Bank), and the arrival of a top French executive at Nissan.

How did the Japanese live amidst their “first defeat”—the decade following August 15, 1945 (Showa 20)? U.S. air raids had reduced many of Japan’s major cities to ash. Inflation was rising rapidly and the streets were filled with the unemployed. Simply put, the Showa 20 s should have been the “Lost Decade” for Japan. The reality, however, was not so simple. For the country’s economy, that decade never turned into a “Lost Decade.” Rather, the Showa 20 s became the “decade of revival,” with the Japanese economy accelerating quickly, leading to the high growth of the following years.

During the period of rapid economic growth beginning in the Showa 30 s (1955–1964), Japan witnessed the emergence of a series of entrepreneur heroes. However, it is important to remember that even in the Showa 20 s when the Japanese economy was still in the preparatory stage for takeoff, the nation already had several heroes who played a pioneering role: Sazo Idemitsu of Idemitsu Kosan and Yataro Nishiyama of Kawasaki Steel (the predecessor of today’s JFE Group), both accomplished feats referred to as “miracles” in the early summer of 1953.¹

¹For details about Yataro Nishiyama, see Itami, H. (2015). *Kodoseicho wo hikizuridashita otoko: Sarariiman shacho Nishiyama Yataro no yume to ketsudan (The dream and decision of Yataro Nishiyama, a salaryman company president who pulled out high-speed economic growth)*. Kyoto: PHP Institute, Inc.

Yet Another Miracle

In June 1953, one month after Idemitsu Kosan's Nissho-Maru II returned to Kawasaki Port from Iran with a full load of gasoline and diesel fuel, a blast furnace was fired up in Chiba on the opposite shore of Tokyo Bay, drawing nationwide attention—Kawasaki Steel's No. 1 blast furnace at its Chiba Works.

Kawasaki Steel (Kawatetsu) was a young company led by the inaugural president, Yataro Nishiyama, that had been spun off from Kawasaki Heavy Industries just a few years before, in 1950. With a capital of 500 million yen at the time, Kawasaki Steel would invest an astounding 16.3 billion yen to build the new Chiba Works, an integrated pig-iron-to-steel production facility equipped with a blast furnace. This plan was not only unprecedented in scale, but also daring in the sense that it would break the status quo in an industry then comprised of three ironworks (Yawata Iron & Steel, Fuji Iron & Steel, and Nippon Kokan Kaisha/NKK), plus three dedicated steelmakers (Kawasaki Steel, Sumitomo Metals, and Kobe Steel).

The media reported amusingly that Bank of Japan Governor Hisato Ichimada had ridiculed Kawasaki Steel's plan for Chiba Works, saying that if such a plan was implemented Kawatetsu would come to a standstill and the Chiba Works would grow weeds on its roof. The Ministry of International Trade and Industry (MITI), the supervising authority over the steel industry in favor of maintaining the status quo, also strongly objected to the construction of the Chiba Works, which involved the installation of a blast furnace. Yataro Nishiyama resisted these "government pressures" and brought the No 1 Blast Furnace Kawatetsu Chiba Works into operation. Nishiyama's achievement drew nationwide attention. It was perceived as "another miracle" puncturing the government-led control over the economy that had remained in place long after Japan's defeat.

Sazo Idemitsu and Yataro Nishiyama, who pulled off back-to-back "miracles" in the early summer of 1953, possessed rebellious spirits, refusing to pander to the establishment. Complacency cannot produce a pioneer who ushers in a new era. As is often the case with pioneers, they did not adhere to the proverb that "the nail that sticks out gets hammered;" instead they opted to stand tall even if hammered.

Key Points of Nishiyama's Innovativeness

Yataro Nishiyama was born in 1893 (Meiji 26) in Azuma Village (present-day Ninomiya-machi, Naka County, Kanagawa Prefecture). After graduating from the First High School (Ichiko), Nishiyama studied at the Department of Metallurgy, Faculty of Engineering, Tokyo Imperial University. In 1919 (Taisho 8), he joined Kawasaki Dockyard and built his career in the steelmaking field. Nishiyama became the first president of Kawasaki Steel, which was spun off from Kawasaki Dockyard (later, Kawasaki Heavy Industries) in 1950 (Showa 25). It was three years before the company's first blast furnace at Chiba Works came online.

Historian Seiichiro Yonekura highlights the following three points regarding Yataro Nishiyama's innovativeness, demonstrated in the construction of the Kawatetsu Chiba Works.²

1. By entering the integrated pig-iron-to-steel production, the company broke the status quo in the steel industry, creating vigorous oligopolistic competition among the six major manufacturers (Sumitomo Metals and Kobe Steel were also prompted by the success of Kawatetsu Chiba Works to launch integrated pig-iron-to-steel production).
2. Kawatetsu Chiba Works itself "was beyond the league of any existing plants," due to its sheer size, streamlined layout, coastal location suitable for importing raw materials and exporting finished products, and its proximity to the large consumer area in Tokyo.
3. Nishiyama promoted capital investment through the active use of external capital. The breakdown of the 16.3-billion-yen financing plan drafted by Nishiyama consisted of 8 billion yen from a counterpart fund, 3.1 billion yen in corporate bonds, 1 billion yen in bank loans, 2.5 billion yen in capital increase through share issuance, and 1.7 billion yen in cash on hand. Counterpart funding is a system whereby the government of the recipient country (in this case, the Japanese government) sells goods donated by the donor country (in this case, the United States) and uses the profits for social development projects.

Of these, (1) was representative of the development pattern commonly observed in Japan's major industries from wartime to high-growth periods: aggressive entry of second-tier firms into the market, intensification of oligopolistic competition, and strengthening of the industry's international competitiveness as a whole.³ The pattern of "construction of new coastal factories through major bank loans" described in (2) and (3) was not confined to the steel industry but was also adopted by other major industries, becoming a typical pattern of capital investment during the high-growth period. Points (1), (2), and (3) embodied Yataro Nishiyama's rebellious spirit of breaking the status quo, and were important precursors to Japan's high economic growth.

²Yonekura, S. (1998). *Nihon seitetsugyo no kakushinsha Nishiyama Yataro (Kawasaki seitetsu) (Innovator of Japan's steel industry: Yataro Nishiyama (Kawasaki Steel))*. In H. Itami, T. Kagono, M. Miyamoto, & S. Yonekura (Eds.), *Kesubukku Nihon kigyō no keiei kodo 4: kigyōka no gunzo to jidai no ibuki (Case book management behavior of Japanese companies 4: Images of entrepreneurs and the spirit of the times)*. Tokyo: Yuhikaku Publishing Co., Ltd., pp. 189–193.

³Kikkawa, T. (1995). *Chukansoshiki no henyō to kyosoteki kasen kozo no keisei (The transformation of intermediary organizations and the formation of competitive oligopoly structures)*. In H. Yamazaki, & T. Kikkawa (Eds.), *Nihon keieishi 4: Nihonteki-keiei no renzoku to danzetsu (Japanese business history 4: The continuity and discontinuity of Japanese-style management, Vol.4)* (pp. 233–274). Tokyo: Iwanami Shoten Publishers.

The Man who Changed the History of Japan's Steel Industry

Yataro Nishiyama's construction of the No. 1 blast furnace at Kawatetsu Chiba Works changed the history of Japan's steel industry. To understand this point, we must return to the eve of World War II.

As already noted, the steel industry, similar to the coal and other industries, became one of the main targets of government wartime economic controls. The Iron and Steel Industry Law was enacted in 1937 and the rationing of steel and scrap iron began in 1938. The Steel Control Board was established in 1941. Furthermore, in 1943 major steel mills came under the direct control of the Ministry of Commerce and Industry, although this was short-lived because of the defeat in 1945.

At the outbreak of the Second Sino-Japanese War in July 1937, the Japanese government favored Nihon Seitetsu (Japan Iron & Steel), the leading company at the time, and severely restricted others' entry into pig iron production. However, as pig iron imports from India and scrap iron imports from the U.S. were increasingly likely to be disrupted,⁴ the Iron Manufacturing Industry Law promulgated one month after the outbreak of the Sino-Japanese War reflected a reversal of position, allowing steelmakers to enter pig iron production.

Having met certain efficiency standards set by law, other steelmakers in addition to Nihon Seitetsu began producing pig iron. As a result, the ratio of production by the top three companies with respect to pig iron fell from 97.8% in 1937 to 88.5% in 1944. On the other hand, the concentration ratio of top companies in the steelmaking industry grew in the early 1940s as "scarce resources were invested in a limited number of firms" (the concentration of the top three firms regarding steel products rose from 56.2% in 1937 to 64.9% in 1944).⁵ Still, the oligopolistic trend in the pig iron manufacturing industry was much stronger than in the steel manufacturing industry.

After World War II, the concentration of the top three companies in steel manufacturing declined significantly, falling from 64.9% in 1944 to 49.6% in 1950. Osamu Ito categorized market structure into eight types: Type A (monopoly), Type B (top 1 firm and multiple lower tier firms), Type C (2 tiers, upper and middle), Type D (3-tier, upper, middle, and low), Type E (middle-tier oligopoly), Type F (middle-tier oligopoly and lower tier), Type G (one monopoly firm in the middle tier, plus lower tier firms), and Type H (atomized type). He noted that competition would gradually increase from the least competitive Type A to the most competitive Type H.⁶ The market structure of standard steel products changed from Type B in 1937 to

⁴In fact, the US banned the export of scrap iron to Japan in September 1940 as one of countermeasures for ending the Japan-German-Italy Tripartite Military Pact and Japan's intrusion into the northern part of French Indochina.

⁵*Op. cit.*, Kikkawa, T. (1995), pp. 255–258.

⁶Ito, O. (1988). Nihon no sangyo soshiki to kigyō: Senzen sengo no hikakubunseki (*Japanese industrial organizations and companies: Comparative analysis of the prewar and postwar era*). In Kanagawa University, Shokei ronso (*The review of economics and commerce*), 24(1).

Type D in 1949, and then to Type F in 1955. Similarly, the structure of the pig iron market transitioned from Type C in 1937 through Type D in 1949 to Type F in 1955.⁷

In the postwar period, two factors contributed to intensification of competition among companies in the Japanese steel industry. One was the division of Nihon Seitetsu into Yawata Iron & Steel and Fuji Iron & Steel under the Law for the Elimination of Excessive Concentration of Economic Power. The other was the innovative entrepreneurial efforts by corporate managers in the second and lower tier firms, such as Yataro Nishiyama of Kawasaki Steel.

In June 1953, Nishiyama commissioned the blast furnace at Kawatetsu Chiba Works, the most advanced of its kind in Japan at the time. The construction of the Chiba Works, financed by a long-term loan provided by the Japan Development Bank and by a loan from Kawatetsu's main bank, Dai-Ichi Bank, was the highlight of the "First Rationalization Plan" implemented in Japan's steel industry in the early 1950s.

As the plan progressed, the Japanese government adopted the principle of providing equal assistance to all companies that met certain criteria for efficiency. For example, from 1952 onward, the Japan Development Bank provided long-term loans to six companies: Fuji Iron & Steel, Yawata Iron & Steel, NKK, Kawasaki Steel, Sumitomo Metals, and Kobe Steel.⁸

The mechanism at work here, whereby the Japanese government in principle provided equal assistance to all companies meeting certain efficiency criteria, was what Japanese economist Juro Hashimoto dubbed the "equal opportunity principle for honor students"⁹—observed also in the implementation of the Iron Manufacturing Industry Law of 1937. However, not until the implementation of the "First Rationalization Plan" did this principle fully take root in the steel industry. Yataro Nishiyama was clearly the person behind the "equal opportunity" principle, as he developed the Kawasaki Steel Chiba Works, the main highlight of the "First Rationalization Plan."

Following the completion of the "First Rationalization Plan," the second rationalization plan was launched in 1956, mainly involving competition among the three existing blast furnace steelmakers (Yawata Iron & Steel, Fuji Iron & Steel, and NKK) and the three others that formerly used open hearth furnaces (Kawasaki Steel, Sumitomo Metals, and Kobe Steel). These companies all rushed to construct blast furnaces, a reflection of the "Kawatetsu shock" triggered by the construction of Kawasaki Steel's Chiba Works. Their action, however, was also inspired by the government's 1957 New Long-Term Economic Plan to make the country

⁷ *Op. cit.* Kikkawa, T. (1995), pp. 256; 258–259.

⁸ Yamagiwa, K. (1979). Sengo Nihon keizai no gorika katei to kaigin no yakuwari (*The rationalization process of the postwar Japanese economy and the role of Japan Development Bank*). In Chuo daigaku daigakuin nenpo daihachigo (*Bulletin of Graduate Studies, Chuo University, No.8*), pp. 204–205.

⁹ Hashimoto, J. (1991). Nihon keizairon: Nijusseiki sisutemu to Nihon keizai (*On the Japanese economy: twentieth century system and the Japanese economy*) (p. 284). Kyoto: Minervashobo.

self-sufficient in pig iron, with a specific goal of constructing ten blast furnaces by FY1962.

Upon entering the 1960s, the competition among the six blast furnace steel mills to build integrated steelworks accelerated, driven by the remarkable growth of steel demand and the “Income Doubling Plan” announced by the government in 1960. During this period, a series of large-scale integrated iron works were established in coastal locations: Sumitomo Metals (Wakayama) and NKK (Keihin) in 1961, Fuji Iron & Steel (Nagoya) in 1964, Yawata Iron & Steel (Sakai) in 1965, NKK (Fukuyama) in 1966, Kawasaki Steel (Mizushima) in 1967, Yawata Iron & Steel (Kimitsu) in 1968, Kobe Steel (Kakogawa) in 1970, and Sumitomo Metals (Kashima) in 1971.¹⁰

In the competition for capital investment among steel companies during the period of high economic growth, the “equal opportunity principle for honor students” was evident throughout. This overarching long-term trend shows that Yataro Nishiyama had changed the rules of the game. Just as Yasuzaemon Matsunaga transformed the electric power industry, Nishiyama changed the history of the Japanese steel industry.

Decision-Making with a Rational Thinking

It is important to note that Yataro Nishiyama’s actions in breaking the status quo were not the product of passion but were backed by sound calculation and experience. His greatness came not only from audacity, but also from the meticulousness of decisions based on a clear rationale.

According to Hidemasa Morikawa, Yataro Nishiyama envisioned meeting three challenges when he decided to build the Chiba Works of Kawatetsu: (1) the prospect of steel market expansion, (2) financial planning, and (3) securing technical capabilities. Nishiyama took measures to meet these challenges that included: (1) market research as of 1949, before the Korean War; (2) lobbying MITI (the Ministry of International Trade and Industry), which was in charge of overseeing the counterpart fund, and inviting Shosoku Omori, the managing director of Dai-Ichi Bank, to become chairman of Kawatetsu; and (3) recruiting highly skilled blast furnace engineers (including Saburo Asawa) from Showa Steel, formerly a group company under the wartime Manchuria Railway (South Manchuria Railway). Morikawa concludes that Nishiyama was not so much a “passionate person” as a “passionate organizer” with the ability to think critically and rationally.¹¹

¹⁰It is said that fourteen of the top twenty furnaces in the world with high-productivity performance were already in Japan as of 1965. See Nikkei (Eds.). (1988). *Showa no ayumi 2: Nihon no sangyo (Showa history 2: Japanese industries)* (p. 134). Tokyo: Nikkei Publishing Inc.

¹¹Morikawa, H. (2001). *Nishiyama Yataro (Kawasaki seitetsu): Kan heno hangyakusha niyoru goriteki kosoryoku (Yataro Nishiyama (Kawasaki Steel): Rational conceptual capacities by a rebel against the government)*. In S. Sasaki (Eds.), *Nihon no sengo kigyokashi: Hankotsu no keifu (The*

Into the Era of High Economic Growth

Hiroyuki Itami, who wrote a critical biography of Yataro Nishiyama entitled “The Dream and Decision of Yataro Nishiyama, A Salaryman Company President Who Pulled out High-Speed Economic Growth” (Itami 2015), shares Nishiyama’s recollections about the construction of the Chiba Works. It was published in the November 8, 1958 edition of the Kawasaki Steel Newspaper, an in-house publication:

It was quite a commitment. But it was also based on a meticulous and careful plan, and I think what made me so determined was my awareness of the trends of the times. In other words, the postwar industrial revolution and advances in science and technology changed the old iron manufacturing methods, and everything became mass-produced, precise, and automated, making it impossible to compete using the old methods in terms of quality and price. Kawatetsu also gave up on the old method and decided to start the continuous production from pig-iron-to-steel rolling.

In addition, the international situation of the time had left postwar Europe exhausted. The European countries prioritized reform of their steel industry, and as a result Japan’s steel industry came under pressure. The situation became so serious that the Japanese industry would have been destroyed if it continued the status quo.

The same would have been true on the domestic front. The population was growing and domestic resources were scarce. Therefore, the entire country had to seriously consider how to feed itself. Before the war, the cotton industry was a major exporter, but after the war the cotton consuming regions [of the world] were already entering the self-sufficiency phase. Under these circumstances, Japan would be forced to become self-sufficient through heavy industry in the coming years. To do so, it was first necessary to improve the steel industry, the foundation of all heavy industry. We began construction of Chiba Works, agreeing that we would first build a blast furnace and establish integrated steel making operations, then work on modernization, starting with the manufacturing of sheet metal.¹²

As this recollection shows, Yataro decided to build the Chiba Works based on his accurate “perception of the trends of the times;” his standpoint was rooted in the big picture. It was also driven by his strong sense of mission, taking into full account the domestic and international situations.

The “equal opportunity for honor students” principle normalized by Nishiyama went beyond steelmaking, and was adopted by other major industries. Competition for capital investment intensified among companies that met certain efficiency standards, and this opened the door to the era of high economic growth. From 1951 to 1953 the Japanese economy returned to pre-World War II levels in terms of both production and consumption. From the mid-1950s to the early 1970s, the Japanese economy enjoyed a period of high growth remarkable in global history. In 1968, Japan overtook other developed countries in GNP (Gross National Product), becoming the second largest economy among capitalist countries, after the United States.

history of postwar Japanese entrepreneurs: A timeline of anti-establishment minds (pp. 261–270; 274–275). Tokyo: Yuhikaku Publishing Co., Ltd.

¹²Quoted from *op. cit.*, Itami, H. (2015), pp. 161–166.

During this period of high economic growth, Japanese living standards improved dramatically. Engel's coefficient (the ratio of food costs to personal consumption) shrank, while expenditures on durable consumer goods such as the "three sacred treasures" (black-and-white TVs, electric refrigerators, and electric washing machines), and the "3Cs" (color TVs, air conditioners, and passenger cars), increased significantly.

Urbanization and the increase in the number of single-generation households also helped spending on factory manufactured products, mainly consumer durables. For Japan's postwar heavy and chemical industries that had lost their military clients, this expansion of personal consumption was an important market factor supporting their growth.

Meanwhile, the average annual growth of private-sector capital investment, described as "investment spurring investment," was more than twice that of personal consumption during this period.¹³ Along with expansion of personal consumption, capital investment served as the engine propelling the Japanese economy's high growth rate. Japan's strong economic growth was driven by "domestic demand" in the form of consumer spending and private-sector capital investment. This characteristic distinguishes Japan from the other later-emerging Asian economies.

Following the construction of the Chiba Works, Yataro Nishiyama devoted himself to the construction of the Mizushima Iron Works, a driving force of the private-sector capital investment era. As Hiroyuki Itami noted: Nishiyama "pulled out a period of high economic growth." In July 1966, the year before the Mizushima Iron Works' blast furnace became operational, Nishiyama stepped down as president of Kawasaki Steel. He passed away in August of that year.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



¹³ *Op. cit.*, Kikkawa, T. (2007). (*Economic growth and Japanese-style corporate management: Corporate management from rapid growth to the early twenty-first century*) (pp.299–300).

Case 15 Konosuke Matsushita: Initiator of the “Consumer Revolution” Drives High Economic Growth



Abstract This chapter introduces Konosuke Matsushita, president of Matsushita Electric (officially, Matsushita Electric Industrial Company, now Panasonic) and Initiator of the “Consumer Revolution” during the High Economic Growth period in the Showa era.

The Progression of the “Consumer Revolution”

As discussed in Overview 3, the trend that began in the 1920s—Japan’s economic growth rate exceeding that of the United States, the United Kingdom, and Germany—continued over a long period even with interruptions before, during, and after World War II. Not until the 1990s did the trend come to an end. The most important factor behind this prolonged period of relatively high growth was the development of a mass consumer society and increase in personal consumption.

The phenomenon of greater personal consumption driving economic growth was most widely observed from the mid-1950s to the early 1970s. During this high-growth period, Japan established a mass consumer society, linking mass production, mass distribution, and mass consumption.

The term “technological innovation” first appeared in the White Paper on Economy for FY1956 (Showa 31) along with the famous phrase “The postwar period is now over,” announcing the advent of the era of high economic growth.¹ Three years later, the White Paper on the National Lifestyle for FY1959 used the expression

¹The Economic Planning Agency (Eds.) (1956). Showa sanjuichinendo keizai hakusho (*White paper on the economy for fiscal 1956*) (pp. 33–35; 38). The Printing Bureau, the Ministry of Finance.

“consumer revolution” for the first time.² Three years after that, the book, “The Distribution Revolution,” by Japanese author Shuji Hayashi³ became a bestseller.

The White Paper on the National Lifestyle for FY1963, subtitled “Improvement in Consumer Life and its Levelling Trend,” summed up the changes that occurred in Japan from the mid-1950s to the early 1960s in terms of consumption, production, and distribution. It noted “increased consumption, levelling of consumer lifestyles = arrival of mass consumer society (qualitative change in food consumption, popularization of durable consumer goods etc.);” “technological innovation (emergence of new products, establishment of mass production systems);” and “changes in sales mechanisms (development of mass retailers, producers’ entry into the sales system).” The report concluded that these were all closely linked.⁴

The White Paper on the National Lifestyle for FY1959, in which the expression “consumer revolution” was first used, states:

While the level of consumption exceeded the prewar level by 25%, this does not mean that consumption of food, clothing, housing, and cultural consumption increased at the same rate. Not only was there a change in the composition of consumer expenditure owing to the increased income compared with the prewar period, but there was also a structural change that has been referred to as a consumer revolution, deriving from changes in people’s lifestyles and attitudes in the postwar period.⁵

Thus, “consumer revolution” meant structural changes in consumption, or qualitative enrichment, as distinguished from quantitative increase in consumption. What specific structural changes in consumption occurred in Japan after the mid-1950s? The White Paper on the National Lifestyle for FY1963 highlighted the following four points.⁶

1. Qualitative change in food consumption
2. Popularization of durable consumer goods
3. Changes in energy sources for utility consumption
4. Increase in active leisure consumption

²The Civilian Employment Division, the Coordination Bureau, the Economic Planning Agency (1959). *Sengo kokumin seikatsu no kozoteki henka (kokumin seikatsu hakusho Showa sanjuyonenban) (The structural transformation of postwar national lifestyle (White paper on the national lifestyle for 1959))* (p. 1). The Printing Bureau, the Ministry of Finance.

³Hayashi, S. (1962). *Ryutsukakumei: Seihin keiro oyobi shohisha (Distribution revolution: Product channel and consumer)*. Tokyo: Chuokoron-shinsha. Inc.

⁴The Economic Planning Agency (Eds.) (1964). *Showa sanjuhachinendo kokumin seikatsu hakusho (White paper on the national lifestyle for fiscal 1963)* (pp. 8–27). The Printing Bureau, the Ministry of Finance.

⁵*Op. cit.*, The Civilian Employment Division, the Coordination Bureau, the Economic Planning Agency (1959). *(The structural transformation of postwar national lifestyle (White paper on the national lifestyle for 1959))* (p. 1).

⁶*Op. cit.*, The Economic Planning Agency (Eds.) (1964). *(White paper on the national lifestyle for fiscal 1963)* (pp. 10–20).

The changes in energy sources meant rapid growth in consumption of electricity, gas, and oil. Increased fuel consumption was the result of popularization of durable goods -various home devices, gas appliances, oil heaters, motorcycles, and automobiles. Leisure consumption meant the growing popularity of travel and sports, made possible by “the spread of convenient consumer durables, the increase in liquid fuel consumption, the increase in instant foods, and the increased availability of factory-finished clothing such as sweaters that reduced the amount of housework.⁷” Thus point (4) is the outcome of points (1), (2) and (3). The structural changes in consumption that occurred in Japan after the mid-1950, called the “consumer revolution,” consisted of a qualitative change in food consumption (1), and the availability of durable consumer goods (2).

Home appliances were representative of durable consumer goods. From the mid-1950s, with the start of Japan’s rapid economic growth, home appliances proliferated in Japanese households. The White Paper on the National Lifestyle for FY1963 noted that the period from 1956 to 1960 saw the arrival of “the first phase of a durable consumer goods boom,” and that “furniture and fixtures outlays doubled during this four-year period, but about 70% of this increase was attributed to the growth of electrical appliances. The growth of television sales was especially rapid.⁸”

“Television” here refers to black-and-white television, widely available as its price declined. Kiyoshi Nakamura, who discussed the formation of the mass production and mass sales system of home appliances, explains this point:

The biggest obstacle to the expansion of the market for [black-and-white] television was, above all, its price. The path to cost reduction was paved by the domestic production of cathode-ray tubes in 1954 and was accelerated by the development of various key technologies associated with production costs and the rapid expansion of mass production. The 14-inch TV became mainstream after the revision of the excise tax in April 1954, rendering it advantageous in terms of the tax rate. The price dropped to 120,000 yen at the end of the same year, and after falling below 100,000 yen in 1955, models priced below 70,000 yen appeared by the end of 1957. By dropping to the level equivalent to two months’ pay of a middle-class salaried worker, the rate of ownership finally reached 10% in the following year, to be followed by the era of full popularization.⁹”

The rapid penetration of home appliances into ordinary households triggered by price cuts was also observed for other appliances. Popularization of home appliances began in earnest in the 1960s, with a “home appliance boom.” Black-and-white televisions, electric washing machines, electric refrigerators, electric kotatsu [table-

⁷ *Ibid.*, p. 17.

⁸ *Ibid.*, p. 13.

⁹ Nakamura, K. (1992). *Kaden ryosan ryohan taisei no keisei (The formation of mass production and mass sale systems of home electric appliances)* in H. Morikawa (Ed.), *Bijinesuman no tameno sengo keieishi nyumon: Zaibatsu-kaitai kara kokusaika made (An introduction to postwar business history for businessmen: From the dissolution of zaibatsu to internationalization)* (p. 122). Tokyo: Nikkei Publishing Inc.

style heaters], electric rice cookers, and electric vacuum cleaners led the way in the 1960s. Of these, the first three products were even called “three sacred treasures.”

Creation of Dedicated Distribution Networks by Home Appliance Manufacturers

The rapid development of household electrification in Japan during this period prompted a major structural change in the way home appliances reached consumers. This change was creation of a dedicated distribution network, or distribution keiretsu, by home appliance (consumer electronics) manufacturers. The phenomenon occurred not only on the wholesale level but also on the retail level, transforming the entire industry.

These dedicated distribution networks roughly followed this process¹⁰:

1. Between 1953 and 1955, the three major electric appliance companies—Toshiba, Hitachi, and Mitsubishi Electric—each established a sales company to oversee the wholesale stage (Toshiba Trading, Hitachi Home Appliance Sales, and Ryoden Corporation), setting up their own distribution networks.
2. In response to the moves by the three major electric appliance companies, home appliance manufacturers also began to create dedicated networks of wholesale distributors. Leading the way was Matsushita Electric, which introduced a sales company system in 1957 covering the entire country.
3. That year, Matsushita launched the “National Store Association” and began full-scale efforts to form distribution linkages not just at the wholesale level, but also at retail-level. This move spread to other home appliance manufacturers (Hitachi in 1957, Toshiba and Sharp in 1958, and Sanyo Electric in 1959 all introduced their own keiretsu retail systems).
4. By 1963 Matsushita Electric created a distribution network similar to the one shown in Fig. 1.
5. Subsequently, around 1964–1965, the operations of keiretsu-affiliated wholesalers and retailers deteriorated due to the economic recession. The decline prompted home appliance manufacturers to work on rebuilding their distribution networks, focusing on the development of sales companies and exclusive dealers (e.g., introduction of a territorial sales system), and to strengthen the competitiveness of keiretsu retailers.
6. As a result of a series of such rebuilding efforts, “by approximately 1970, the distribution channel for consumer electronics linking manufacturers, affiliated

¹⁰Kikkawa, T. (1998a). Shohi kakumei to ryutsu kakumei (*Consumption revolution and distribution revolution*). In the Institute of Social Science, The University of Tokyo, (Eds.), Nijuseiki shisutemu 3 keizaiseicho II juyo to taiko (*Twentieth-century system 3: Economic growth II acceptance and resistance*) (pp. 122–128). Tokyo: University of Tokyo Press.

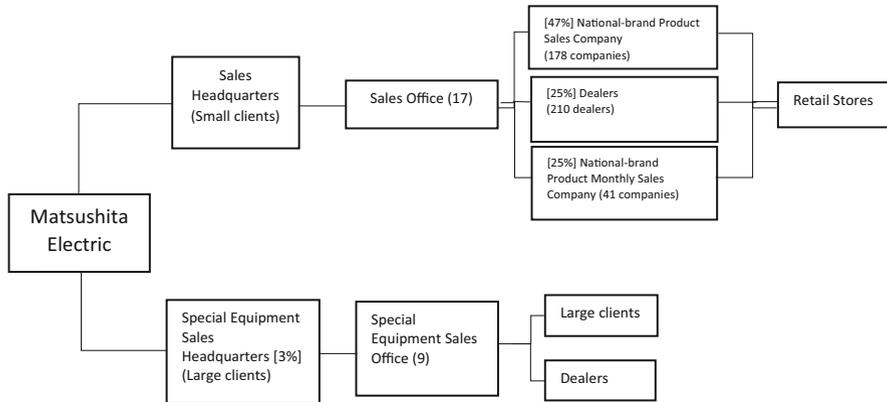


Fig. 1 Distribution Mechanism of Matsushita Electric in 1963.

Note: Figures inside [] indicate the ratio to sales.

Source: The Institute of Economic Research, Osaka City University (1974). *The reorganization process of wholesale distribution organizations for home electronics in Osaka*

wholesalers, and affiliated retailers grew capable of functioning efficiently with a stable and continuous product supply system, enabling mass production.¹¹

As is clear from the above discussion, Matsushita Electric (officially, Matsushita Electric Industrial Company, now Panasonic), led by Konosuke Matsushita, played a leading role in the creation of dedicated distribution networks among home appliance manufacturers during the high growth era.

“Matsushita’s Way of Doing Business” as Practiced by the “God of Management”

Durable consumer goods, including home appliances and passenger cars, dubbed the “three sacred treasures” and “3C¹²”, added splendor to the era of high economic growth. During this time, Konosuke Matsushita¹³ was a representative manager among Japan’s consumer electronics manufacturers, and Soichiro Honda was representative of automobile manufacturers. Konosuke built Matsushita Electric, Japan’s largest home appliance manufacturer, and was called the “God of

¹¹Niida, H., & Mishima, M. (1991). Ryutsu keiretsuka no tenkai: Kateidenki (*The development of distribution keiretsu: Home electric appliances*). In Y. Miwa, & K. Nishimura (Eds.), *Nihon no Ryutsu (Japanese distribution)* (p. 110). Tokyo: University of Tokyo Press.

¹²Collective expression referring to color TV, air conditioners and cars.

¹³A new biography of Konosuke Matsushita: Yonekura, S. (2018). *Matsushita Konosuke: Kimi nara dekiru kanarazu dekiru (Konosuke Matsushita: You can do it for sure)*. Kyoto: Minervashobo.

Management.” His accomplishments included establishing a mass production and mass sales system, introducing autonomous business divisions, and ensuring profitability.

In the “New Year’s Dreams” section of the 1956 special New Year’s issue of “Diamond” magazine, Konosuke stated, “I believe that the year thirty-one . . . will be the first year in which our country will truly achieve great development.” True to his words, Showa 31 (1956) became the inaugural year of Japan’s high economic growth era. The protagonist of high economic growth correctly foretold its beginning.

Konosuke and Matsushita Electric were able to play a leading role in Japan’s high economic growth because of their adherence to the “Matsushita’s way of doing business” i.e., “increasing sales of quality products at the lowest possible price.” In the October 2, 1956 issue of Diamond magazine, in an interview titled “Konosuke Matsushita – Success with High Quality and Low Price,” Jyukichi Kono wrote:

“When a recession comes, business at my company picks up” – Mr. Matsushita’s words contradict the common belief. But there is a reason why it works that way . . . National¹⁴ products are inexpensive. When a recession starts, home budgets become tight . . . Everyone tries to buy the cheapest possible product, and that’s why they jump at National brand products. That’s why the company becomes so busy . . . No matter how cheap the price may be, if the product is of poor quality, it is a failure. National products are inexpensive and yet their quality is excellent. That is why his company becomes busy with the arrival of a recession.

Lowering prices was the key element in the popularization of consumer durables that drove Japan’s rapid economic growth. Konosuke, the “god of management,” perfected the strategy of price cuts.

Konosuke Matsushita Before WWII

Matsushita was born in 1894 (Meiji 27) in Wasa Village (present-day Wakayama City), Kaiso County, Wakayama Prefecture. His father, a middle-class landowner, failed in the rice market trade and went bankrupt. After dropping out of elementary school in his fourth year, Matsushita went to Osaka to work as a live-in servant, and at the age of 16 he started working for Osaka Electric Light Co. “At the age of 15, he happened to see a streetcar running in Osaka City. Impressed by its convenience, he felt that the future would be the ‘age of electricity’. Reportedly, this inspired him to seek ‘work in the field of electricity’.”¹⁵

¹⁴A brand of Matsushita Electric Industrial.

¹⁵Nakamura, K. (2001). Matsushita Konosuke: Naisei to hatsugen (*Konosuke Matsushita: Introspection and remarks*). In *Op. cit.*, S. Sasaki (Ed.), (*The history of postwar Japanese entrepreneurs: A timeline of anti-establishment minds*) (p. 21).

At the age of 22 in 1917 (Taisho 6) Matsushita left Osaka Electric Light Co. What “triggered his decision was his strong desire to introduce to the world his own improved version of a socket. His creativity and enthusiasm in work made him passionate about improving wiring fixtures and sockets. His prototype was completed painstakingly, but the boss did not approve it, and although Matsushita again proposed improvements, the product was not adopted. As he was confident about his creation, his disappointment was considerable and his anger deep.¹⁶”

Konosuke founded Matsushita Electric Housewares Manufacturing Works in 1918, introducing a series of practical products that incorporated many of his ideas. The first, the “Attachment Plug,” and his first utility model patent, the “2 Lighting Cluster,” were developed in response to the needs of customers at the time. Furthermore, the bullet-shaped, battery-powered lamp for bicycles, said to have laid the foundation for Matsushita’s future growth, was epoch-making as well as practical. Building upon this, the cubic lamp was developed for general household use, and was marketed under the National brand in the hope that it would become a must-have for people around the country.¹⁷

“Riding the wave of the post-World War I electrification boom,¹⁸” Matsushita Electric Housewares Manufacturing Works “entered the clothes iron, kotatsu [table-style heater], stove, and other fields in Showa 2 [1927] under the slogan ‘electro-thermal equipment that anyone can buy,’ and further expanded into radios in 1930 with the slogan ‘a radio that does not break down.’ . . . These were practical products for the masses in the era of electrification. This customer-oriented devotion to business underlay Konosuke’s dedication to what he called segmentation into specialty fields.¹⁹”

In 1932 (Showa 7), Konosuke gathered 200 of his approximately 1000 employees at the time at the Chuo Denki Club in Osaka and explained his “tap water philosophy”—“Our mission as industrialists is to provide goods inexpensively ‘like tap water’ through ‘relentless production.’” Konosuke’s impassioned speech inspired employees, and the entire venue was in an uproar.²⁰ “Thus, ‘tap water philosophy,’ the foundation of Konosuke’s management philosophy, was made public.

Putting “tap water philosophy” into practice, Matsushita Electric Housewares Manufacturing Works “focused on distributing quality products at affordable prices for the average household from early on.” On the other hand: “Regarding prices, ‘both unreasonably high profits and overly small profits are out of the proper course

¹⁶ Ōmori, H. (1980). Matsushita Konosuke: Kaden okoku wo kizukiageta naiseiteki kigyoka” (*Konosuke Matsushita: Introspective businessman who built a home appliances kingdom*). In *Op. cit.*, K. Shimokawa, A. Sakaguchi, H. Matsushima, Y. Katsura, & H. Ōmori, (Eds.), (*Japanese entrepreneurs 4: The postwar edition*) (p. 223).

¹⁷ *Ibid.*, p. 227.

¹⁸ *Op. cit.*, Nakamura, K. (2001), p. 23.

¹⁹ *Op. cit.*, Ōmori, H. (1980), p. 227.

²⁰ *Op. cit.*, Nakamura, K. (2001), p. 25.

of business,’ Matsushita strove to ensure that his business partners secured appropriate profits.” He was convinced that “selling products at a price based on fair profit margins would not only stabilize the business of manufacturers and distributors but would also make it safer and easier for consumers to buy.” Thus, in July 1935, Matsushita began a campaign to sell products at a fair price based on the principle of co-existence and co-prosperity. The term, “just price” (seika), meant “appropriate price” (tekisei kakaku), and this wording was developed by Matsushita Electric Housewares Manufacturing Works’ to distinguish it from the widely used “established price” (teika). The company then implemented the “federation store system” in November 1935 to “promote the philosophy of co-existence and co-prosperity.”²¹

In 1933, Konosuke introduced a system of autonomous business divisions for Matsushita Electric Housewares Manufacturing Works, and in 1935 reorganized the company: “In December 1935, when the company was reorganized into Matsushita Electric Industrial Co. Ltd., it spun off different business divisions, coming to encompass nine subsidiaries such as radios, dry batteries/lamps, wiring equipment, and metal products, and went on to become one of the leading electric appliance manufacturers with a total of 4000 employees. During the war, the company worked on manufacturing military radios, wooden boats, and even airplanes. At the end of the war, it had more than 20,000 employees and about 60 factories.”²²

Konosuke Matsushita After WWII

The day after the war ended, Konosuke gathered executives in the auditorium of the Matsushita Electric head office, which had survived air raids, and “clearly stated his policy to return immediately to civilian industry.” Four days later, “On August 20 of Showa 20 [1945], he issued a memo titled, ‘Notification to all employees,’ encouraging them: ‘The basis of recovery is production. Let’s bring back our company’s traditional spirit and devote ourselves to the nation’s reconstruction and cultural revival’²³.”

However, reviving production at Matsushita Electric was not easy. In 1946 the company was designated as a restricted company by the occupying Allied forces. Classified as a zaibatsu-affiliated company, it was subject to dissolution. Konosuke himself was also banned from holding public office.

However, “the [occupying Allied Powers’] ban on Konosuke’s holding public office was lifted the following year, in part due to a petition filed by representatives

²¹ Website of Panasonic Corporation. Kigyo joho, rekishi, shashi (*Company information, history and corporate history*). <https://holdings.panasonic.jp/corporate/about/history/chronicle.html>.

²² *Op. cit.*, Nakamura, K. (2001), pp. 23–24.

²³ *Op. cit.*, Website of Panasonic Corporation. (*Company information, history and corporate history*). <https://holdings.panasonic.jp/corporate/about/history/chronicle.html>.

of the newly formed labor union of the company and of Matsushita Electric dealers. The zaibatsu designation [of Matsushita Electric by the Allied Powers] was also lifted in late 1949 as a result of persistent protests. At this time, the labor union unanimously resolved to oppose Konosuke's inclusion in the list of figures subjected to the public office ban, and representatives carrying more than 10,000 petitions stayed in Tokyo for about ten days to lobby the GHQ [General Headquarters of the occupying Allied Powers] and the Japanese government.²⁴ The labor union's taking the lead in lifting the public office expulsion measure was an unusual event for Japan in the immediate post war era when labor-management conflicts were intensifying. This support of management presented a contrasting picture to the situation at Toshiba where labor-management disputes grew increasingly serious, disrupting production. Good labor-management relations under Konosuke's leadership enabled Matsushita Electric to restore production soon after the war.

In 1950, Matsushita declared the "reconstruction" of Matsushita Electric to domestic and overseas audiences. He toured the United States in 1951, and in 1952 formed a technical partnership with the Dutch manufacturer Phillips. This placed Matsushita at the forefront of the electrification boom that began in Japan around that time. He strongly emphasized rebuilding the sales system. As the "corporate history" posted on the Panasonic website (the company name was changed from Matsushita Electric Industrial to Panasonic in 2008) states:

Even before the 1950 declaration about reconstruction, the company already had begun to strengthen its sales, technical, and manufacturing capabilities to enable active business development in the future. In terms of sales, a sales company system was launched in some regions in 1950, while the following year the company pressed ahead with strengthening the sales staff department at its headquarters and opened more satellite sales offices. It actively promoted the establishment of sales companies across the country until around 1959.

In parallel, establishment of companies selling products on monthly installments began in 1951. Initially, these companies were only intended for radios, but later they began to handle other large-size products.

The reconstruction of dealership organization also began. In 1949, the federation store system was revived, and in some districts a fellowship "National Association" was formed by leading members of the federation, before it evolved to the "National Retail Store Association."²⁵

²⁴ *Op. cit.*, Nakamura, K. (2001), p. 29.

²⁵ *Op. cit.*, The website of Panasonic Corporation. (*Company information, history and corporate history*).



Konosuke Matsushita (1965) holding the Atami Conference and exchanging views with attendees. (Provided by Jiji Press Photo)

The high growth rate of the Japanese economy began in the mid-1950s in tune with Matsushita Electric’s goal of “strengthening sales, technology, and manufacturing capabilities.” The company, which was preparing a system for mass production and mass sales of home appliances, was well positioned to lead the oncoming “consumer revolution” and high economic growth.

Konosuke commandeered Matsushita Electric, which continued to grow with the popularization of home appliances in Japan. Then in 1961, when the company’s business was on a steady track, he became chairman, and withdrew from the frontline.

The situation changed in the mid-1960s, however, when black-and-white TV, electric washing machines, and electric refrigerators became commonplace. “In the consumer electronics market, sales competition became fierce again, inventories grew, and the ability of the distribution keiretsu to control prices declined. In 1964, nearly 150 of the 170 Matsushita Electric dealers posted losses, and dissatisfaction toward Matsushita Electric grew.²⁶” At this low point, in July 1965, Konosuke invited dealers and sales company presidents across Japan to Atami and held a roundtable discussion. Kiyoshi Nakamura wrote about this gathering:

At this meeting, later known as the “Atami Conference,” Konosuke stood for a total of thirteen hours over a three-day period and listened to the voices of dissatisfaction. He reflected on the company’s shortcomings in light of its “co-existence and co-prosperity” philosophy and was finally reduced to tears. Reportedly, his reaction moved the audience and changed the venue’s tense atmosphere. Konosuke returned to the frontline of

²⁶ *Op. cit.*, Nakamura, K. (2001), p. 33.

management as Acting General Manager of the Sales Headquarters and implemented a new sales system, establishing sales companies nationwide, a regional system of distributors and retailers, and a thorough enforcement of cash-based settlement. His passion, grabbing the hearts of the dealership owners, and his capacity to spearhead the reconstruction of the sales system, displayed his continuing ability, even at the age of 69.²⁷

After the Atami Conference, Matsushita Electric made a comeback and returned to a growth track. Once again, Matsushita's leadership drew increasing praise, cementing his reputation as the "god of management."

Looking back at Konosuke's life, it was notable that he earnestly and directly appealed to his stakeholders, generated great enthusiasm, and transformed the situation, whether advocating the "tap water philosophy," declaring the return to civilian industry immediately after the war, or calling for restructuring of the sales system at the "Atami Conference." Hiroshi Ōmori, who wrote a brief biography of Matsushita, calls Konosuke an "introspective entrepreneur."²⁸ Similarly, Kiyoshi Nakamura's biography of Konosuke is subtitled "Introspection and Remarks."²⁹ Konosuke's remarks reflecting his introspection, inspired many people outside the business world.

An example of Konosuke's social endeavors was the establishment of two organizations: the PHP Institute (Peace and Happiness through Prosperity) and the Matsushita Institute of Government and Management (MIGM).

Hiroshi Ōmori described the establishment of the PHP Institute:

During the postwar social turmoil, facing a period of distress as a company and as an individual, Konosuke asked himself what he should do, not only as an entrepreneur but also as an individual human being and a member of society. After introspection, he put his ideas into action, like a businessman. The result was the establishment of the PHP Institute in November of Showa 21 [1946]. Konosuke says that he "was compelled" to launch PHP in the face of the social and economic turmoil immediately after war defeat. While gathering wisdom from all over the world, PHP aimed to study the meaning of human existence and examine how we can achieve true prosperity, peace, and happiness for everyone. Ultimately PHP would propose various measures for accomplishing prosperity.³⁰

The other social undertaking, MIGM, is a human resources training organization that Konosuke established in 1979 "spending 7 billion out of pocket to turn this into a foundation." Many politicians and business leaders are MIGM graduates.

Konosuke Matsushita, who led Japan's high economic growth as the initiator of the "consumer revolution," retired as the chairman of Matsushita Electric in 1973. He passed away in 1989 (Heisei 1).

²⁷ *Ibid.*, p. 33.

²⁸ *Op. cit.*, Ōmori, H. (1980), p. 254.

²⁹ *Op. cit.*, Nakamura, K. (2001), p. 17.

³⁰ *Op. cit.*, Ōmori, H. (1980), p. 254.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 16 Masaru Ibuka, Akio Morita, Soichiro Honda, and Takeo Fujisawa: The Groundbreaking Nature of Sony and Honda Becoming Global Companies



Abstract This chapter introduces the entrepreneurs, Masaru Ibuka and Akio Morita of Sony, and Soichiro Honda and Takeo Fujisawa of Honda Motor, all who played a leading role in economic growth.

“Sony of the World”; “Honda of the World”

After Japan’s defeat, through the postwar reconstruction period and the era of high economic growth, many entrepreneurs thrived. Looking solely at those involved in the manufacturing industry, one can quickly name a diverse group of entrepreneurs. In addition to Sazo and Konosuke, others of stature were Keizo Saji of Suntory, Shojiro Ishibashi of Bridgestone Tire, Takeshi Mitarai of Canon, Toshio Iue of Sanyo Electric, Tokuji Hayakawa of Hayakawa Electric, Masaru Ibuka and Akio Morita of Sony, and Soichiro Honda and Takeo Fujisawa of Honda Motor. These entrepreneurs played a leading role in economic growth, especially during that lengthy period. It is also worth noting that the business sectors in which they were active all involved consumer goods.

The dynamism of entrepreneurs during this period can be considered a continuation of innovative entrepreneurial activities. Regarding continuity, the following two points need clarification:

1. How did business opportunities for entrepreneurial activities spread throughout the country in that period? (what were the objective conditions for innovative entrepreneurial activities?)
2. Why were only certain business managers able to take advantage of the greater business opportunities? (what were the subjective factors underlying innovative entrepreneurial activities?)

In this case study, these two questions will be examined by looking at the paths of four entrepreneurs who created the globally renowned companies Sony and Honda.¹ Sony and Honda are selected for the following reasons:

1. Unlike other companies such as Matsushita Electric that existed before World War II, Sony and Honda were founded after the war.
2. Both Sony and Honda are well known not only in Japan but also throughout the world and are representative of global companies originating in Japan. The period covered by this case study starts at the year after the end of WWII, when both companies were founded, and continues to the final years of the high economic growth era (the end of the 1960s), when Sony and Honda transformed into global companies.

Profiles of the Four Businessmen

Masaru Ibuka was born in April 1908 (Meiji 41) in the town of Nikko, Kamitsuga County (now Nikko City), Tochigi Prefecture. After graduating from Waseda University with a Bachelor's degree in electrical engineering, Ibuka worked for PCL (Photo Chemical Laboratory), a subsidiary of Toho Pictures, and Nihon Ko-on Kogyo, before establishing Japan Measuring Instruments (Nihon Sokuteiki Kabushiki Kaisha) in November 1940 (Showa 15) during the war. After the war he founded Tokyo Tsushin Kogyo in May 1946, the predecessor of Sony, with others including Akio Morita, a naval engineer he had met around 1940. Tokyo Tsushin Kogyo changed its name to Sony in January 1958, and Ibuka served as president of the company from November 1950, becoming chairman in June 1971. He passed away in December 1997.

Akio Morita was born in Nagoya, Aichi Prefecture, in January 1921 (Taisho 10), thirteen years after Masaru Ibuka. Upon his graduation from the Department of Physics at Osaka Imperial University, Morita immediately became a naval technical apprentice and was soon promoted to lieutenant in the Navy. After the war, Morita participated in the founding of Tokyo Tsushin Kogyo. With Ibuka in charge of technology and Morita in charge of sales, the famed duo helped transform Sony into a world-class company. Morita became vice president of Sony in December 1959,

¹Description, with modification, based on Kikkawa, T., & Nonaka, I. (1995). *Kakushinteki kigyosha katudo no keiki: Hondagiken to Sonii no jirei (Continuous succession of innovative activity by businesspeople: Cases of Honda Motor Corporation and Sony)*. In T. Yui, & Hashimoto, J. (Eds.), *Kakushin no keieishi: Senzen sengo niokeru Nihon kigyo no kakushin kodo (The business history of innovation: Japanese companies' innovative behavior before and after World War II)*. Tokyo: Yuhikaku Publishing Co., Ltd. Concerning Soichiro Honda, detailed description can be found in Itami, H. (2010). *Honda Soichiro: Yattemimo sende nani ga wakaru (Soichiro Honda: What can you say if you haven't even tried?)*. Kyoto: Minervashobo.; and Itami, H. (2012). *Ningen no Tatsujin Honda Soichiro (Soichiro Honda, a master of being human)*. Kyoto: PHP Institute, Inc.

president in June 1971, and then chairman in January 1976. He passed away in October 1999.

Soichiro Honda, the founder of Honda Motor, was born in November 1906 (Meiji 39) in Komyo Village, Iwata County, Shizuoka Prefecture (present-day Hamamatsu City). Upon his graduation from high school, Honda served as an apprentice at Art Shokai, an automobile repair shop in Tokyo, and mastered mechanical engineering skills. In 1934 he established Tokai Seiki, a piston ring manufacturer. Making a fresh start after the war, Soichiro started the Honda Technical Research Institute in Hamamatsu City in October 1946, and two years later, in September 1948, the Honda Technical Research Institute was reorganized as Honda Motor Co. Soichiro served as president of the company from its founding, and in October 1973, he and the vice president, Takeo Fujisawa, retired in what was referred to as a “brilliant departure.” He passed away in August 1991.

Takeo Fujisawa, the business partner of Soichiro and considered the “best right-hand man” in Japanese business history, was born four years after Soichiro, in November 1910 (Meiji 43) in Koishikawa Ward, Tokyo (now Bunkyo Ward, Tokyo). After graduating from Keika Junior High School, Fujisawa established the Japan Machinery Research Institute in April 1939. After the war, he met Soichiro through an acquaintance and the two hit it off. Takeo joined Honda Motor as managing director in October 1949, becoming vice president in April 1964. He consistently oversaw Honda’s sales, accounting, and human resources operations after joining the company, implementing “two-man management” with Soichiro, who oversaw technology and development operations. Takeo retired simultaneously with Soichiro in 1973 and passed away in December 1988.

Commonality of Their 1946 Founding and Early Product and Sales Strategies

Looking back at the footsteps of Sony and Honda Motor during the period between the postwar years to the era of high economic growth, we realize there was remarkable similarity between them. Commonality of the two companies can be summarized in four points:

First, the similarity in their beginnings and their early adoption of common strategies for products and sales.

Tokyo Tsushin Kogyo (hereinafter referred to as Totsuko), the predecessor of Sony, and Honda Technical Research Institute, the predecessor of Honda Motor, were both established in 1946, in Tokyo and Hamamatsu respectively. At their founding, both companies were the size of a small-town factory, with Totsuko

employing only about 20 people² and Honda employing only 34³ as of 1948, the year that the company changed its name to Honda Motor.

In Totsuko's founding charter, Masaru Ibuka emphasized that the company would leverage its technological prowess to develop new products that no existing large electronics manufacturers would touch. This spirit was Totsuko's source of energy as well as its basic product development strategy since the company's founding.

The magnetic tape recorder was the first of the "new products that no large electronics manufacturer would touch," and it was the catalyst for Totsuko's subsequent growth. Ibuka and Morita, the key founding members of the company, were both technicians, but with the launch of the tape recorder, a rough division of labor was established—Ibuka was in charge of technical development and Morita in charge of product sales.

In August 1950, Totsuko developed Japan's first tape deck and tape, and released them as the G-type tape recorder. Totsuko's development of the tape recorder was triggered by the strong interest shown by Masaru who managed to see an actual tape recorder through someone associated with the occupying Allied forces. The G-type tape recorder, commercialized after overcoming many obstacles, weighed 45 kg and cost 160,000 yen at a time when the starting salary for civil servants was 5500 yen (in 1951).⁴ Due to its high price, its weight, and unfamiliarity, the first tape recorder in Japan showed no signs of selling even a couple of months after its release. It was some time before the first device was sold; the buyer was an oden [fish cake stew] eatery in Yaesu, Tokyo. Totsuko then stepped up efforts to market the G-type tape recorder to the courts, at the time suffering from a shortage of stenographers, and he succeeded in selling twenty units to the Supreme Court.⁵

However, realizing that the price and weight of the G-type tape recorder limited marketability, Totsuko produced the H-type tape recorder, a smaller and lighter version of the G-type, at about half the price. Launched in March 1951, the H-type was a tape recorder with a price tag and performance suitable for audio-based education in schools.

During the period of Allied occupation, "the Americans stressed the importance of learning to listen and speak correctly and emphasized the importance of studying

²Sony Corporation (1986). *Sonii soritsu yonjussunen kinenshi: Genryu (Commemorative book for the 40th anniversary of Sony's foundation: Origins)* (p. 24). Sony; and The Public Relations Center of Sony Corporation (Eds.) (1996). *Sonii soritsu gojussunen kinenshi: Genryu (Commemorative book for the 50th anniversary of Sony's foundation: Origins)* (p. 26). Sony Public Relations Center.

³Honda Motor Co., Ltd. (1955). *Shashi soritsu nanashunen kinen tokushu (Commemorative book for the seventh anniversary of its foundation)*. Tokyo: Honda Motor Co., Ltd.; and Honda Motor Co., Ltd. (1999). *Kataritsugitai koto: Charenji no gojunen (What we would like to say for the next generation: 50 years of challenge)* (p. 7). Tokyo: Honda Motor Co., Ltd.

⁴*Op. cit.*, Sony Corporation (1986), p. 66.

⁵Ibuka, M. (1991). *Wagatomo Honda Soichiro (My friend Soichiro Honda)* (p. 117). Tokyo: Gomashobo.

language [English].⁶ So the utilization of tape recorders in the classroom would also benefit schools. According to Masaru Ibuka, thanks to the sale of the H-type tape recorders, costing 80,000 yen apiece, Totsuko “suddenly had much better cash flow and was able to spend generously for development.”⁷

Totsuko’s early tape recorders were mainly for institutional use (courts, schools, etc.), rather than for home use. The fact that the “G” in the G-type tape recorder stood for Government was indicative of this use. To spur marketing, Akio Morita personally visited elementary and other levels of schools to teach students how to operate tape recorders. Thus, Totsuko cultivated a market for a new product and taught the market how to use it. Thus, education was an essential step for Totsuko in cultivating a market for its new product. This process of educating the market would be repeated for transistor radios and VCRs as the company grew.

Meanwhile, Honda Motor launched its operations with the production of the A-type engine, an auxiliary engine attached to bicycles. The launch was in November 1947, a year after the company’s founding. This A-type engine was commonly called “Bata bata” [flap flap in Japanese] because of the sound it generated.

The mass production of Honda Motor’s first full-fledged motorcycle, the Dream D (two-stroke, 98 cc), began in August 1949. Coincidentally, this was the same month that Totsuko successfully developed a prototype tape head and magnetic tape recorder. At the time, there were no Japanese manufacturers producing both motorcycle bodies and engines. Thus, with the launch of the Dream D, Honda Motor became the first Japanese manufacturer to produce both.

The Dream D was modified and marketed as the Dream E in October 1951. The Dream E subsequently became Honda Motor’s mainstay product that put the company on a growth track. From a technical standpoint, the Dream E’s chief feature was the use of an overhead-valve (OHV) four-stroke engine, with a soft exhaust sound and no exhaust smoke, unlike many of the competitor products that used a two-stroke engine.

The two-stroke cycle performs the four processes of intake, compression, combustion, and exhaust in one piston round trip, while the four-stroke cycle performs these four processes in two round trips. The four-stroke cycles have advantages over two-stroke cycles, including a softer exhaust sound, no smoke emission, better fuel economy, lower oil consumption, and ease in starting.⁸ In addition, Honda’s novelty

⁶Kawabe, N. (1988). *Sonii no maketingu senryaku, 1945–79* [Sony’s marketing strategy, 1945–79]. In Hiroshima daigaku sogo kagaku-bu kiyou I (*The Bulletin of the School of Integrated Arts and Sciences, Hiroshima University: Regional Cultural Studies*), 14, p.144.

⁷*Op. cit.*, Ibuka, M. (1991), p. 118.

⁸Honda Motor Co., Ltd. (1975). *Honda no ayumi: Senkyuhyakuyonjuhachinen kara senkyuhyakunanajugonen* (*The history of Honda: 1948 to 1975*) (p. 9). Tokyo: Honda Motor Co., Ltd.

lay in its adoption of the OHV for the production of four-cycle (stroke) vehicles, instead of its competitors' side-valve [flathead] style.⁹

The commercialization of the Dream D and Dream E models shows that, immediately after its founding, Honda Motor adopted the same product strategy as Totsuko—entering fields no other manufacturers touched.

Soichiro Honda had confidence in the technical field, but was an amateur in sales, and was looking for someone whom he could entrust with sales. Through a friend's introduction, Soichiro met Takeo Fujisawa, and in 1949, Fujisawa joined Honda Motor. Following release of the Dream E, Honda Motor launched the Cub-F (hereafter referred to as Cub), a bicycle auxiliary engine, in June 1952. Fujisawa developed the sales network for the Cub, which became famous for its “red engine, white tank” catch phrase.

Like others in the same industry, until then Honda Motor's products had been sold through dealers. But Fujisawa, seeing that “if we relied only on dealers, [. . .] the distribution pipeline would become clogged,” concluded that “we must envision a larger distribution network.¹⁰” “Fujisawa put his focus on bicycle stores, which were far more numerous than motorcycle retailers (300 to 400 nationwide at the time). When the Cub was launched, Fujisawa sent letters to 55,000 bicycle retailers across Japan, encouraging them to become Cub dealers. Eventually 15,000 bicycle stores decided to carry the Cub.¹¹ Thus, the division of labor within Honda Motor's top management was established early on, with Soichiro in charge of technology and Takeo in charge of sales and finance.

As described above, Totsuko and Honda shared commonality in their early sales strategies. Both manufacturers sought to cultivate new markets through active involvement in sales. Akio Morita's education of the market and Takeo Fujisawa's development of the sales network were clear examples. Another important commonality was the early emergence of sales-focused executives, such as Akio and Takeo, at the top of the managerial hierarchy.

Overseas Business Trips in 1952 and Investment for Competitiveness

The top executives of the two companies both made important international business trips in 1952, just 6 years after the companies' founding. As a result of these trips, both made decisive investments that set them apart from their competitors.

⁹See *op. cit.* Honda Motor Co., Ltd. 1999. Kataritsugitai-koto (*Things that should be handed down from generation to generation*) (p. 24). Tokyo: Honda Motor Co., Ltd.

¹⁰Fujisawa, T. (1974). *Taimatsu ha jibun no tede: Honda to tomoni nijugonen (Make your own products and sales networks: 25 years with Honda)* (p. 14). Tokyo: Sanno University Press.

¹¹*Op. cit.*, Honda Motor Co., Ltd. (1975), pp. 10–12.; and *Op. cit.*, Honda Motor Co., Ltd. (1990), pp. 25–26.

In April 1952, Masaru Ibuka of Totsuko traveled to the United States to conduct market research on tape recorders, studying how tape recorders were being used there. Contrary to his initial expectation, tape recorders were not widely used in U.S. schools, and in terms of availability, Japan might even have been ahead of the United States. Although his market research yielded little, through his keen technician's sense he managed to learn about development of the transistor at America's Bell Telephone Laboratories.

Totsuko's trip to the United States resulted in investments to strengthen competitiveness that would set him apart from others and turn the company into the "Sony of the world," that is, purchasing the transistor patent and developing the transistor radio.

In 1953, the year after Masaru Ibuka's U.S. trip, Akio Morita also visited the U.S. and signed an agreement with Western Electric, the parent company of Bell Telephone Laboratories, for the use of the transistor patent. At the time, it was believed that transistors were only for use in hearing aids, but Masaru judged that hearing aids would not be a mainstream product and focused on finding a new use for transistors: the development of transistor radios.

In reality, when Masaru Ibuka founded his company Totsuko, he was opposed to the production of radios, the industry's leading product at the time.¹² Ibuka believed that a small company like Totsuko would be unable to compete where major manufacturers were locking horns to produce bulky radios attached with a power cord, under the slogan "a radio for every household." However, after obtaining information about transistors in the United States, Ibuka began to envision personal radios, "a radio for every person"—something small, portable and not requiring a power cord.

"Totsuko spent an unimaginable amount of money and effort for a company of its size to develop a transistor that the company was not even certain would ever become a viable product" . . . "Anyway, it cost a lot of money."¹³ After persuading the Gotanda Branch of Mitsui Bank and its main office Screening Division, Totsuko was finally able to obtain a loan of the necessary size.

Totsuko launched Japan's first transistor radio, the TR-55, and the world's smallest pocket transistor radio, the TR-63, in August 1955 and March 1957, respectively, to favorable reviews. These products were marketed under the "SONY" brand, in accordance with a policy decided in February 1955. The TR-63 was Totsuko's first full-fledged export product, giving birth to the new English term "pocketable radio" and helping to spread the Sony brand name worldwide.

Meanwhile, Soichiro of Honda Motor visited the United States and Europe in November 1952, the same year as Ibuka's trip to the United States. Honda personally selected and purchased machine tools worth 450 million yen in total. These state-of-

¹²Yamana, I. (1992). *Soniiryu shohin kikakujutsu: Saisho saikeiryō koseino sekaihatsu no seihin ha ikanishite umaretaka (The Sony Technique of Product Planning: How the 'smallest, lightest, highly functioning and world first' products are born)* (p. 24). Tokyo: Koshobo Publishers.

¹³*Op. cit.*, Sony Corporation (1986), p. 127.

the-art machines were deployed one after another at Honda Motor's new factories in Saitama (Shirako and Yamato) and Shizuoka (Aoi) that the company built in 1953–1954 to establish a mass production system. Soichiro's business trip was directly related to investments to develop competitiveness, investments that would play a key role in securing Honda's position as Japan's top motorcycle manufacturer.

After the restrictions on fuel sales that had been implemented under the Allied occupation were lifted around 1950–1951, 29 motorcycle manufacturers sprang up in Hamamatsu alone, and more than 100 nationwide. In 1950, Honda Motor was only the fifth largest motorcycle manufacturer in Japan, but in 1951, the year following the launch of the Dream E model, it became the third largest and from 1953 onwards it held the number one spot. During this period Honda Motor purchased machine tools totaling 450 million yen and built the Shirako Plant and other facilities. Due to the business crisis of 1954, to be discussed next, the company temporarily lost its number one position to Tokyo Hatsudoki (Tohatsu) in 1955, but as early as 1956 it regained the top spot, and has held the position ever since.¹⁴

Honda Motor, however, completing a series of new plants between 1953 and 1954—in Shirako (April 1953), Yamato (July 1953), and Aoi (April 1954)—and establishing a mass production system, faced a crisis in 1954 that could have destroyed the company. In January of that year, the company launched the Juno scooter, which was plagued by a series of problems, including overheating. The launch of the Juno marked Honda's entry into the existing scooter market, but the plastic molding introduced for the sake of novelty led to an unexpected defect: the air-cooled engine, covered with plastic, frequently overheated.

The Cub, the auxiliary engine for bicycles, also saw its sales shrink around the same time, as competitors began to sell similar products. Moreover, as soon as the company upgraded its mainstay product, the Dream, from 200 cc to 225 cc, complaints abounded and sales declined. Takeo Fujisawa's plan was based on the calculation that the monthly sales of 1 billion yen would cover the cost of purchasing the 450 million-yen investment in machine tools and the costs associated with the construction of the Shirako, Yamato and Aoi factories. The plan became untenable when Honda Motor's monthly sales fell to less than 500 million yen.

Under the business environment of the time, known as the 1954 recession, and with problems and declining sales of the Juno, the Cub, and the 225 cc Dream occurring almost simultaneously, Honda Motor was facing a crisis of survival. To overcome crisis, Soichiro and Takeo worked vigorously as an engineer-and-businessman team, like two wheels moving in tandem.

Soichiro worked around the clock to identify the cause of the problems with the upgraded 225 cc Dream. Meanwhile, Takeo judged that the era of a motorized bike in the form of an auxiliary engine attached to the bicycle had come to an end, so he

¹⁴The above description regarding the competition among the manufacturers in the Japanese motorcycle market is based on Tomitsuka, K. (1980). *Otobai no rekishi: Mekanizumu no hensen to gijutsushatachi wo meguru dorama (The history of motorcycles: Changing mechanisms and the drama among engineers)* (pp. 81–82; 125–127; 176–184). Tokyo: Sankaido Publishing Co., Ltd.

stopped production of the Cub and sold some of the machine tools he had just imported to Kobe Steel.¹⁵ Furthermore, he temporarily halted production of the more powerful 225 cc Dream until Soichiro could pinpoint the cause of its problems, and instead concentrated the company's production effort on the older 200 cc Dream model during the consecutive public holidays of May to secure future cash flow. Honda Motor's labor union, just established the previous year in 1953, decided to cooperate with Fujisawa's policy and "unified labor-management efforts were committed to increasing the production of the 200 cc Dream."¹⁶

However, it was impossible for Honda Motor to survive its 1954 crisis only through the sale of machine tools and the emergency production of the older 200 cc Dream. Therefore, Takeo decided to ask Mitsubishi Bank for a loan. Until that point, Honda Motor had not relied heavily on bank loans for plant construction or equipment purchases. On the contrary, dealers around Japan deposited proceeds from the Cub sales to the Kyobashi branch of Mitsubishi Bank, making Honda Motor a major customer who entrusted the bank with an immense amount of funds.¹⁷ Tokita Suzuki, manager of the Kyobashi branch of Mitsubishi Bank, who received a loan request from Honda Motor, "enthusiastically explained his belief [in Honda] to the bank executives¹⁸ in order to gain approval for the loan. Thanks in part to such cooperation, Honda Motor was able to obtain a loan of 200 million yen from Mitsubishi Bank.

In addition, Takeo gathered 300 representatives of Honda Motor's parts suppliers and explained to them that Honda Motor would be unable to pay for the parts for some time and that it would be unable to place fresh orders. He admitted that this was an unreasonable request, and implied that inevitably some of the suppliers would give up on Honda Motor. Although a few suppliers did stop doing business with Honda, most expressed gratitude to Honda for advancing their business this far and agreed to continue working with the company.¹⁹

Meanwhile, Soichiro finally discovered that the cause of the problem in the 225 cc Dream was its carburetor, promptly resolving the problem soon after. Thus, thanks to their combined efforts working as a "two-man management" team, Honda Motor was able to overcome the company's greatest crisis since founding. As mentioned above, after 1956, Honda came to be consistently ranked first among Japanese manufacturers in terms of motorcycle production volume.

¹⁵ See: Yamamoto, Y. (1993). *Fujisawa takeo no kenkyu: Honda Soichiro wo sasaeta meihosayaku no himitsu (Studies of Takeo Fujisawa: Secrets of the great aide who supported Soichiro Honda)* (pp. 111–127). Tokyo: Kanoshobo Publishers.

¹⁶ *Op. cit.*, Honda Motor Co., Ltd. (1975), p. 21.

¹⁷ Sakiya, T. (1982). *Honda Motor Co., Ltd.: The men, the management, the machines* (p. 87). Tokyo: Kodansha International Ltd.

¹⁸ Nishida, M. (1983). *Kataritsugu keiei: Honda to tomoni sanjunen (Handing down business management to the next generation: 30 years with Honda)* (p. 66). Tokyo: Kodansha Ltd.

¹⁹ *Op. cit.*, Sakiya, T. (1982), pp. 96–97.

Full-Scale Entry into Overseas Markets from 1957–1958

The third commonality, as well as simultaneity, shared by Sony and Honda was that both entered full-scale into overseas markets from 1957 to 1958, becoming global companies as early as more than ten years after their founding. The two grew to be global companies in the following ways:

1. In March 1957, Totsuko launched the transistor radio TR-63, their first full-scale export product,²⁰ and in August 1958 Honda launched the Super Cub, the leading export.²¹
2. In June 1959, Honda established American Honda Motor, and in February 1960, Sony established Corporation of America (Totsuko changed its name to Sony in January 1958).
3. In June 1961, Sony became the first Japanese company to issue ADRs (American Depository Receipts), and in December 1962, Honda Motor also issued ADRs.

Sony's "growth made progress in parallel with its globalization as a company. Or rather, Sony was able to become the major company we know today by building on its experience of becoming a global company."²² The company's first full-fledged export product was the transistor radio TR-63, launched in 1957 during Totsuko's time. As mentioned earlier, in 1955 the company decided to put the "SONY" mark on its products, because of English speakers' difficulty in pronouncing "Tokyo Tsushin Kogyo" or "Totsuko". Totsuko was determined to make the Sony name known in overseas markets.

In January 1955, Totsuko received an order for 100,000 units of the TR-52 transistor radio (nickname: the U.N. building-shaped radio), which it had developed as a prototype, from the major American watch manufacturer Bulova. But Akio Morita turned down the order because it wouldn't allow the use of Sony's brand name on the radios, even though it was the type of order the company desperately wanted at the time.²³ In 1958, the company name was officially changed to Sony Corporation, so as to spread the brand name internationally. In 1960, Sony established a local sales company, the Sony Corporation of America, around the same time that the Sony brand name began to penetrate the U.S. market through the successful export of transistor radios. In September 1962, Sony Corporation of America opened a showroom in a prime location in New York City, which was referred to as the "Sun [Japanese] flag on Fifth Avenue."²⁴

²⁰ *Op. cit.*, Sony Corporation (1986), p. 329.

²¹ *Op. cit.*, Fujisawa, T. (1974), p. 71.

²² Kano, A. (1982). Sony shinjidai: Shukakuki wo mukaeru mirakoka senryaku (*New era for Sony: Mirror effect strategy that is about to bear fruit*) (p. 1). Tokyo: PRESIDENT Inc.

²³ *Op. cit.*, Sony Corporation (1986), p.142; and *op. cit.*, The Public Relations Center of Sony Corporation (Eds.) (1996), pp. 84–85.

²⁴ Maeda, K. (1979). Kaigai maketingu no hatten: Sonii to hondagiken no kaigai kogaisha (*The development of overseas marketing: Overseas subsidiaries of Sony and Honda Motor*). In *op.cit.*,

In 1961, Sony became the first Japanese company to offer its shares to the general public as American Depositary Receipts (ADRs), and the move was well received. This was an opportunity for the company to directly finance its overseas operations. It also meant that the U.S. market recognized Sony as a top-tier international company. Sony's stock was listed on the New York Stock Exchange in September 1970.

Meanwhile, Honda Motor also made early efforts to globalize the company. "In Showa 25 [1950], we were the Honda Technical Research Institute of Hamamatsu, but today we are the Honda of Japan. This year, we must become the Honda of the world."²⁵ This sentence is part of the "President's Hope" by Soichiro Honda that appeared in the company's Monthly Report No. 6, but it is important to note that "this year" is 1952, only six years after the company's founding. It is said that employees at the time could not help but smile at Soichiro's insistence on global conquest.

However, in March 1954, when the company was facing crisis, Soichiro announced his intention to enter the Tourist Trophy (TT), the world's top motorcycle race, in order to inspire his employees and others involved. The resulting success in the TT and other races helped to dramatically raise Honda's international profile as a motorcycle manufacturer.

Honda Motor's first full-fledged export product was the Super Cub (50 cc, 4.5 hp), a lightweight motorcycle launched in 1958. According to the corporate history, "The Super Cub experienced explosive sales immediately after launch. We can say that we joined the ranks of the modern mass-production, mass-distribution companies thanks to the Super Cub."²⁶ In marketing the Super Cub, Honda Motor rebuilt its motorcycle sales network in Japan, again capitalizing on its network of bicycle dealers. In April 1960 the company established the Suzuka Plant (Mie Prefecture) and set up a mass production system for the Super Cub.

The Super Cub was well received not only in Japan but also in the United States and other countries. Its marketing in the United States was spearheaded by a locally incorporated sales unit, American Honda Motor Co. (Amehon), established in 1959. In marketing the Super Cub, Amehon launched its famous "You Meet the Nicest People on a Honda" campaign. An article in Life magazine at the time, "America in Love with Honda," stated:

Honda has created a new way of thinking about motorcycles. Gone was the unappreciated image of rough guys in black leather jackets that had long been associated with motorcycles, and in its place is an image of fun, an image of happiness. . . that many Americans could finally embrace. In short, Honda products gave riding a motorcycle a social dignity all its own. Today, Honda has truly captivated the American market.²⁷

K. Nakagawa, H. Morikawa, & T. Yui (Eds.), (*The enlarged edition of basic knowledge on modern Japanese business history*) (p. 379).

²⁵ Quoted from *op. cit.*, Honda Motor Co., Ltd. (1975), p. 42.

²⁶ *Ibid.*, p. 50.

²⁷ Quoted from *ibid.*, p. 41.

The “Nicest People on Honda” campaign completely changed the image of motorcycles in the United States. By successfully replacing the traditional image of “a vehicle for rough men in black leather jackets” with a new image of “a handy vehicle for the nifty and the thrifty,” Honda Motor effectively created a brand new product line, a “friendly motorcycle,” for the sizeable U.S. market.²⁸ The overall Honda brand also became a household name in the United States. Following Sony’s lead, Honda Motor started offering its shares as ADRs in 1962.

Entry Into Large Established Markets in 1963–64

The fourth simultaneous and shared attribute was the 1963–64 entry by both companies into established, large markets that were initially on the periphery of their core businesses. Honda entered the automobile market in 1963 and Sony made a full-scale entry into the television market in 1964.

Honda Motor, which had firmly established itself as a motorcycle manufacturer, became directly involved in automobile manufacturing when a bill for Extraordinary Measures for the Promotion of Specified Manufacturing Industries was drafted in 1962. Honda Motor hastily decided to enter the four-wheeled vehicle market after determining that if the bill passed, new entrants would be regulated and could effectively be prevented from manufacturing automobiles permanently. In August and October 1963, the company launched the T360 light truck and the S500 compact sports car, respectively, marking its entry into the automobile market. In March 1967, Honda began selling its first full-fledged four-wheeled vehicle, the N360, a micro-passenger car.

The Honda N360 was less expensive than its rivals, the Subaru 360 and Mazda Carol, and had superior space utility. The model became the top-selling microcar as early as May 1967, two months after its launch, and by May 1969 the number of units registered in Japan exceeded 300,000 (reaching a sales plateau in the fall of that year due to a defect found in June 1969).²⁹ Honda Motor then launched the 1300 sedan in May 1969 and began to produce small passenger cars as well.

In parallel with its entry into four-wheeled vehicles, from 1964–1968 Honda entered the Formula One (F1) division of the World Grand Prix, the pinnacle of motor racing. Its participation in F1 served to raise Honda’s international profile as a four-wheeled vehicle manufacturer. For Honda, F1 was also a “laboratory with wheels,³⁰” and according to Soichiro Honda, the requirements for competing in

²⁸Ibid., p. 41.; and *op. cit.*, Honda Motor Co., Ltd. (1999), pp. 121–125.

²⁹Yoshida, T. et al. (1991). *HONDA 360 STORY: Chiisana kyojin senkyuhyakurokujusannen kara senkyuhyakunanajuyonen (HONDA 360 STORY: Small giant, 1963 to 1974)*. (pp. 112–113). Tokyo: Miki Press.

³⁰*Op. cit.*, Honda Motor Co., Ltd. (1975), p. 63.

the race were not different from those for manufacturing mass market vehicles.³¹ In November 1964 Honda Motor built a new main plant for four-wheeled vehicles in Sayama, Saitama Prefecture, and in October 1967 began production of four-wheeled vehicles at its existing Suzuka Plant (in parallel with motorcycle production).

Having established a mass production system, Honda Motor also focused on establishing a sales system for four-wheeled vehicles. For the sale of these vehicles, an important role was played by the SF (Service Factory) that was conceived by Takeo Fujisawa and whose construction began in July 1964.

At that time, existing major manufacturers such as Toyota and Nissan had already established complete dealer networks, and it was difficult to establish a new sales network of the same type. Therefore, Takeo decided to have his motorcycle dealers handle Honda's four-wheeled vehicles. As it was difficult to set up a new automobile repair shop within the floor space of a motorcycle dealer, Honda Motor paid for the construction of service and repair shops that could be shared by several dealerships in various locations. These were the Service Factories. In addition, motorcycle dealers with too small a floor space for even displaying automobiles were asked to place only catalogs and posters. Honda Motor paid for the construction of a joint exhibition hall and business meeting room to be shared by multiple small motorcycle dealers. Honda continued to use motorcycle dealers to sell automobiles until 1973, when the SF (Service Factory) system was eventually dissolved.

Meanwhile, Sony's full entry into the television market began with the completion of the Chromatron-type color television in September 1964. Although Sony had already produced micro-TVs and other products, they were for only a specialized segment of the television market. The Chromatron color tube system used by Sony to produce color televisions had a brighter picture than the shadow mask systems used by many of its competitors. On the other hand, the Chromatron type had the disadvantage of being more difficult to work with than the shadow mask type. Masaru Ibuka and his team worked on developing the product, saying "Sony is an innovator. There is no point in doing the same thing as others,"³² but were making slow progress. It was almost as if Sony was going to "commit suicide with Chromatron."³³ Finally, in 1964, Sony succeeded in developing a Chromatron color television, but had to introduce a different type shortly thereafter—the Trinitron system. In developing the latter, the research experience with the Chromatron-type helped greatly. The new Trinitron color TVs that went on sale in October 1968 were well received and Sony rapidly increased its share in Japan's television market.

³¹ See NHK reporting team (1992). *Gijutsu to kakutoshita otoko: Honda Soichiro (Soichiro Honda—A man who fought with technology)* (p. 45). Tokyo: NHK Publishing, Inc.

³² *Op. cit.*, Sony Corporation (1986), p. 60; and *op. cit.*, The Public Relations Center of Sony Corporation (Eds.) (1996), p. 144.

³³ *Op. cit.*, The Public Relations Center of Sony Corporation (Eds.) (1996), p. 310.

With Sony's full-scale entry into the television market under the leadership of Akio Morita, the company embarked on developing its own dedicated distribution network in Japan, centered on Sony Shops:

By around 1965, Sony's domestic sales were growing with the help of store-front sales and discount shops that were emerging at that time. However, the explosive success of Trinitron color televisions in Japan led to a turning point for Sony's domestic sales, with the creation of its own dedicated network of stores.³⁴

Objective Conditions That Enable Innovative Entrepreneurial Activities

As we have seen, four entrepreneurs—Masaru Ibuka, Akio Morita, Soichiro Honda, and Takeo Fujisawa—played important roles in the growth of Sony and Honda from their founding in 1946 through the 1960s. At the same time, although the two companies belonged to different business sectors, they shared a remarkable degree of timing and of dynamics of growth. The similarity strongly suggests that objective conditions underpinned the innovative entrepreneurship of the top management of Sony and Honda. These conditions were evident in the series of entrepreneurial activities that emerged in Japan between the postwar reconstruction period and the high economic growth period, as described in the first part of this case study. In the introduction to Case 16, two issues were presented, and here we must examine the first: what were the objective conditions that allowed for innovative entrepreneurial activities?

Such objective conditions from the immediate postwar to the 1960s can be categorized as demand-side and supply-side. On the demand side, disposable income of the masses increased and the need for consumer goods expanded and deepened. Referred to as the “consumer revolution” and the “arrival of a mass consumer society,” such phenomena were not limited to Japan, but also manifested extensively in the western world, including the United States.

As disposable incomes increased, consumers developed greater desire to use their time more efficiently and to expand their activities geographically. Motorcycles and passenger cars satisfied these new temporal and spatial needs. In response to the growing desire for convenience in family life, home appliances spread rapidly, and went beyond “one per family” to “one per person.” Televisions represented family use items; transistor radios represented personal use items.

Many companies that embodied innovative entrepreneurial activities in Japan during that period were involved in production of consumer goods. Thus the expansion and deepening of the consumer goods market, thanks to the increase in disposable income of the masses, created the historical and objective conditions for entrepreneurial activities.

³⁴*Op. cit.*, Kawabe, N. (1988), p. 157.

On the supply side, changes in competitive conditions in Japan provided opportunities for emerging manufacturers. As the consumer goods market broadened and deepened, and business opportunities expanded, one might assume that large established manufacturers would be first to take advantage of the opportunities. Many of the existing large manufacturers, however, deliberately chose not to enter new areas or were unable to do so because of external factors.

In cases where large existing manufacturers were unable to take advantage of new opportunities due to external factors, the series of changes in the postwar environment, such as the dissolution of *zaibatsu*, ban on monopolies, and labor union offensives, bore significant meaning. A case in point is Toshiba, which had the potential to dominate the consumer electronics market, but was adversely affected by the rough waves of postwar reforms and labor union offensives.³⁵ Restrictions on fuel sales continued even during the Allied occupation and may have delayed existing motorcycle manufacturers, working to the advantage of newly founded Honda Motor.

On the other hand, in cases where existing manufacturers chose not to enter the market, it is important to note that the speed of expansion and deepening of the consumer goods market exceeded existing firms' pace of growth. As the need for consumer goods deepened, existing manufacturers first had to increase the production of and improve the quality of products they had already commercialized. After taking account of expansion in the consumer goods market, the companies entered promising new areas, but the scope of their entry was inevitably limited.

The hesitation or reluctance of large firms explains why Toshiba, Hitachi, and Mitsubishi Electric, which entered the television market early on³⁶ did not seriously pursue the development of transistor radios despite showing interest in transistor technology. No large manufacturers that could have posed a serious threat to Honda Motor were among the companies that entered the motorcycle market after the lifting of fuel sale restrictions. (Around 1955, it was not Kawasaki Heavy Industries that embarked on motorcycle production but rather its affiliate, Kawasaki Meihatsu Kogyo. Kawasaki Heavy Industries would later take over Kawasaki Meihatsu Kogyo, but as of 1955, the company's focus was not on motorcycles.³⁷)

³⁵*Op. cit.*, Nakamura, K. (1992), pp. 120, 132–133.

³⁶See *op. cit.*, Sony Corporation (1986), pp. 103–104; and *op. cit.*, The Public Relations Center of Sony Corporation (Eds.) (1996), p. 674.

³⁷For discussion above see: *op. cit.*, Tomitsuka, K. (1980), pp. 82–184.

Subjective Factors That Enable Innovative Entrepreneurial Activities

Obviously the existence of the objective conditions discussed above did not enable all of the new manufacturers and their top managers active from postwar through the 1960s to embody innovative, entrepreneurial activities. Only a few exceptional companies and their top managers achieved this.

Masaru Ibuka, Akio Morita, Soichiro Honda, and Takeo Fujisawa were outstanding because they built Sony and Honda into exceptional companies, but how did their actions differ from those of other top managers? The second discussion point raised at the beginning of this case study provides some answers to the question: what subjective factors enabled innovative entrepreneurial activities?

The following five subjective factors enabled innovative, entrepreneurial activities:

1. Securing a competitive position by developing new markets and differentiating products.
2. Turning attention overseas from an early stage.
3. Establishing exclusive brand and sales channels.
4. Taking investment risks to differentiate themselves from competitors.
5. Having financial backers.

The significance of new markets and differentiated products (factor 1) is evident in Totsuko's founding charter. Sony's insatiable pursuit of new markets and product differentiation was an important feature of its product development strategy. In fact, Totsuko (later renamed Sony) was a step behind Kobe Kogyo in the mass production of transistors. Both Totsuko and Kobe Kogyo received subsidies for mining and industrial testing and research from the Ministry of International Trade and Industry (MITI) for use in mass production of transistors: Kobe Kogyo in 1954 and Totsuko in 1956. However, Totsuko was ahead of Kobe Kogyo in developing practical application of transistors. Totsuko completely surpassed Kobe Kogyo in creating a new use—transistor radios—and in cultivating a new market.³⁸

Honda also put much effort into differentiating its product from those of competitors and on market cultivation. The company was the first to introduce an OHV four-stroke engine in the Dream E model because of its focus on riding comfort, reducing exhaust smoke and noise. The N360 microcar was also well received in the market because of its lower price and superior space utility compared to similar vehicles from other companies. Honda's most dramatic market cultivation success came when it launched the "You Meet the Nicest People on a Honda" campaign in the United States with the launch of the Super Cub. To borrow an expression from

³⁸The above description of competition between Totsuko and Kobe Kogyo is based on Matsui, K. (1979). *Erekutoronikusu-sangyo: Senkushatachi (The electronics industry: The pioneers)*. In *In op.cit.*, K. Nakagawa, H. Morikawa, & T. Yui, (Eds.) (*The enlarged edition of basic knowledge on modern Japanese business history*) (p. 403).

the company's corporate history, with this campaign, Honda Motor succeeded in triggering the "eruption" of the U.S. "sleeping market."³⁹

The importance of expanding overseas (factor 2) is clearly demonstrated by the series of overseas business trips made by the top management of Totsuko and Honda Motor in 1952, only six years after the companies' founding. These trips led to decisive investments for competitiveness. The shared timing and attributes between the two companies in terms of early overseas expansion is also evident in the following: (1) the launch of the transistor radio TR-63 in 1957 and Super Cub in 1958 and the start of full-scale exports; (2) the establishment of a local subsidiary in the United States in 1959–1960; and (3) the issuing of ADRs 1961–1962 ahead of other Japanese companies. Sony and Honda Motor quickly became leading Japanese companies active on the global stage, only a little more than a decade after their establishment.

The importance of establishing their own brand and sales channels (factor 3) is illustrated by two symbolic episodes already mentioned. The first was when Akio Morita of Totsuko turned down an order for 100,000 units of the transistor radio TR-52 from the American watchmaker Bulova because it wouldn't allow the use of Sony's brand name on the radios. The second, when Takeo Fujisawa of Honda Motor used bicycle dealers to sell motorcycles and motorcycle dealers to sell automobiles, thus creating a sales network for the company's products. The staffs of Sony and Honda included not only technological experts such as Masaru Ibuka and Soichiro Honda, but also sales experts such as Akio Morita and Takeo Fujisawa. This combination was an essential precondition for the growth of both companies.

Honda's establishment of a motorcycle sales network, along with its early establishment of a mass-production system, was a major factor in defeating rival manufacturers. Marusho Motor (a motorcycle manufacturer) produced the Lilac model that triumphed in the Asama Kogen Race (motorcycle endurance race) in 1955 over the Dream, and at one time was poised to become a close competitor of Honda Motor. However, Masashi Ito, Marusho's former president, stated that the company eventually went bankrupt in 1961 because it lacked the sales network of Honda Motor.⁴⁰

There is no denying that Sony's distribution network was weaker than Matsushita's, and that Honda's automobile sales network was less powerful than those of Toyota and Nissan. Nevertheless, Sony and Honda, both latecomers in the consumer electronics and automobile industries, successfully established their own sales networks despite having to compete against the more established companies. The market intelligence gathered through their own sales networks proved useful for the product development of both companies.

Taking investment risks to achieve competitiveness (Factor 4) includes Honda's purchase of new machine tools and construction of mass-production plants for the

³⁹*Op. cit.*, Honda Motor Co., Ltd. (1975), p. 40.

⁴⁰Based on *Hamamatsu Pong Pong Story*, a TV program that aired on NHK General TV on March 5, 1992.

Super Cub and N360, and Sony's (or Totsuko's) purchase of transistor patents and R&D for Chromatron-type color TVs. These investments were risky considering the capital size of the two companies at the time, and in fact some of them ended in failure. Honda Motor's purchase of machine tools for the Cub (sold to Kobe Steel) and Sony's development of the Chromatron format (switched to the Trinitron format) were examples that resulted in failure.

Overall, however, these major investments served as decisive turning points in the companies' efforts to distinguish themselves from, and triumph over, their rivals.⁴¹ We must not forget that good labor-management relations⁴² and the cooperation of their main banks enabled Sony and Honda to carry out risk-taking investments.

Financial backers (Factor 5) was closely linked to cooperation from the main banks: Mitsui Bank's loan to Totsuko for the transistor patent in 1953 and Mitsubishi Bank's bailout loan to Honda Motor during the financial crisis of 1954, were essential in their becoming global companies—the "Sony and Honda of the world." We cannot overlook, however, the high evaluation of potential for Totsuko and Honda Motor made by bankers at branch offices. Their convincing arguments to their respective superiors were crucial to securing these loans. In summary, the active entrepreneurial activities of Masaru Ibuka and Akio Morita, and Soichiro Honda and Takeo Fujisawa, themselves enabled these bank loans. In this sense, the existence of financial supporters can be regarded as one of the subjective factors for innovative entrepreneurial activities.

This section highlighted five subjective factors behind the innovative entrepreneurial activities of Ibuka, Morita, Honda, and Fujisawa. Others who successfully pressed ahead with innovative entrepreneurial activities from the end of the war through the 1960s seem to have shared all or some of these five factors.

⁴¹J. C. Abegglen and G. Stalk discuss how Honda Motor defeated its rival, Tokyo Hatsudoki, by exercising the first-move, sure-to-win cycle. See – Abegglen, J. C., & Stalk Jr., G. (1986). *Kaisha: Jidai wo tsukuru dainamizumu (Company: Dynamism that creates an era)* (S. Ueyama trans.) (pp. 78–81). Tokyo: Kodansha Ltd. – where the first-move sure-to-win cycle is practically the same as the differentiated investments indicated here.

⁴²To overcome the business management crisis in 1954, Honda Motor had the cooperation of the labor union. At Sony, too, the relationship between management and labor was generally good despite temporary conflict during 1960–61.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 17 Toshio Doko: The Sense of Crisis Harbored by the “Fine Physician of the Business World” and “Mr. Administrative Reform”



Abstract This chapter introduces Toshio Doko, president of Ishikawajima Shipyard (which later changed its name to Ishikawajima Heavy Industries (IHI)). Doko later became chairman of Toshiba and Keidanren. He harbored a sense of crisis in the 1980s, when the Japanese economy was maturing.

Building the Foundation for “Doko the Turbine Man”

Our last case study from World War I to the 1980s “growth era” is Toshio Doko.¹ Doko was called “the fine physician of the business world” because he successfully revived a series of companies that had fallen into crisis. In his later years as chairman of Keidanren (Japan Federation of Economic Organizations) and as “Mr. Administrative Reform (Gyokaku),” he also devoted himself to the revitalization of the Japanese economy and society. Before he passed away, Doko warned the Japanese who were riding the economic bubble era to prepare for the end of the “growth era.”

Toshio Doko was born in 1896 (Meiji 29) in Ono Village, Mitsu County (present-day Okayama City), Okayama Prefecture. He was the second son of Kikujiro, a farmer, and his wife Tomi. The Doko family had been devout followers of Nichiren Buddhism for generations and Toshio was raised under his mother’s strict discipline and devotion to education and to Nichiren Buddhist teachings. Tomi was not only devoted to her own children’s education but also to girls’ education in general, believing that “a nation without capable mothers will decline.” In spite of the difficult circumstances during World War II, Tomi’s 1942 (Showa 17) founding in Yokohama City of Tachibana Gakuen, a school for girls, reflected her enthusiasm for the cause.

¹For details regarding *Toshio Doko*, see Kikkawa, T. (2017b). *Nihon no kigyoka 3 Doko Toshio: Bijon to baitarithii wo awasemotsu kaikakusha (Japanese entrepreneurs 3: Toshio Doko—a reformer with both vision and vitality)*. Kyoto: PHP Institute, Inc.: Itami, H. (2017). *Nandai ga tobikomu otoko Doko Toshio (Toshio Doko, a man who receives a torrent of difficult problems)*. Tokyo: Nikkei Publishing Inc.

In 1911, Toshio entered the private Kanzei Junior High School (now Kanzei High School), where he met the principal, Sataro Yamauchi. A man of character who combined strictness and gentleness, Yamauchi told him: “Do what you think to the best of your ability. Do what you think is worth doing, not what others force you to do.”² These words became deeply engraved in young Toshio’s heart.

After graduating from Kanzei Junior High School, Toshio entered the mechanical engineering department of Tokyo Higher Technical School in 1917 (Taisho 6). At the school, he became head of a student movement to raise the status of the school to a university, sometimes leading demonstrators. This movement continued even after his graduation, and in 1929 (Showa 4) Tokyo Higher Technical School became Tokyo Institute of Technology, the university it remains to this day.

While a student at Tokyo Higher Technical School, Toshio came across a book in a used bookstore in Kanda, Tokyo, titled “Steam Turbines.” From then on, he devoured every technical book on turbines written in English or German that he could get his hands on. The language barrier was high, but Toshio overcame it by finding English and German speakers working in Tokyo, teaching them Japanese in exchange for English and German lessons. These efforts paid off, and before long he was the most knowledgeable person on turbines at Tokyo Higher Technical School, more so than any of the other students or teachers. This expertise became the foundation for his future nickname, “Doko the Turbine Man.”

Delivery of the First Domestically Produced Turbine

In 1920, Toshio Doko graduated from Tokyo Higher Technical School and went to work at Ishikawajima Shipyard. Although many of his classmates joined better paying companies, Toshio chose Ishikawajima because, at the time, the Shipyard focused on turbine research and development, matching Toshio’s strong desire to help domesticate production of turbines in Japan.

For Toshio, the opportunity to lead turbine research and development at Ishikawajima Shipyard came quickly. Due to the shipbuilding depression after World War I and Japan’s signing of the Five-Power Treaty following the Washington Naval Conference of 1921–1922, Ishikawajima shifted its focus of turbine development from marine to land-based applications. To that end, the company sent a researcher to Escher Wyss, a leading Swiss manufacturer of land-based turbines. Toshio was selected as a researcher. He left for Switzerland in 1922. His diligence at Escher Wyss surprised researchers from all over the world, putting into practice the spirit instilled in him by Sataro Yamauchi. He was also living up to his lifelong principles of “thorough diligence” and “thorough proficiency.” In

²Matsuzawa, M. (1992). Doko Toshio no oitachi to sugao (*The background and personality of Toshio Doko*) (p. 19). Yokohama: Yamateshobo Shinsha Publishers.

Switzerland, Toshio spent what little leisure time he had for skiing, his only means of relaxation.

Toshio returned to Japan in October 1923. The various insights that he brought back from Escher Wyss helped to jump-start Ishikawajima Shipyard's land-based turbine business. The delivery of Japan's first domestically produced steam turbine by Ishikawajima Shipyard for a large power generator at Chichibu Cement in 1929 (Showa 4) reflected the value of such insights. At that time, Chichibu Cement's purchasing staff was hesitant to use a domestically produced turbine, but Toshio told them that "Ishikawajima has absolute confidence in its technology. Please do not say that domestic products are inferior to foreign ones without having used them first. Full domestication of production is necessary to encourage Japan's own technological development and for the future of Japan. I urge you to use Ishikawajima's turbines."³ With the delivery of the first domestically produced turbine, the nickname, "Doko the Turbine Man," became widespread throughout the industry.

Revamping the Management of Ishikawajima Shibaura Turbine

Although Ishikawajima Shipyard steadily expanded its business through the rapid growth of its land-based turbine business, the company was hit hard by the Showa Depression, forced to lay off 550 workers in 1931. This was an unforgettable painful event for Toshio Doko. Although his position within the company at the time did not enable him to stop the layoffs, he vowed that he would never allow the company to repeat this action. After the war, as president of Ishikawajima Heavy Industries and Toshiba Corporation, Toshio worked to rebuild the ailing companies, but maintained his policy of "not laying off even a single employee." It is safe to say that his belief in securing employment as a corporate social responsibility was based on his painful experiences during the Showa Depression.

In 1936, sometime after the Japanese economy emerged from the Showa Depression, Toshio was transferred to the newly established Ishikawajima Shibaura Turbine Co. (IST) – a joint venture between Ishikawajima Shipyard and Shibaura Seisakusho, with the two both spinning off their turbine divisions. At IST, "Doko the Turbine Man" continued to play an active role. He recalled his time at IST:

Immediately after my transfer to the new company, I was dispatched to GE headquarters in the United States with plant manager Uematsu and several others, and was given the opportunity to study and observe. We had a frank exchange of opinions with the engineers there, which proved very beneficial.

We returned to Japan in February of the following year, and five months later, I was appointed a member of the board. I was 41 years old.

³Horie, Y. (1999). *Shinnen no hito Doko Toshio: Hasso no genten (Toshio Doko as a man of conviction: Origin of ideas)* (p. 99). Tokyo: Sanshindo Publishers.

Even after becoming the engineering division’s chief and then a board member, my work remained the same. We all discussed and worked together on site to make the best turbines possible. We also traveled all over Japan for assembly and repair. There was literally no time for our seats to stay warm during this period. It was a very busy time for us engineers, as if we were working on turbines before and after every meal.⁴

Toshio, who worked at IST to the end of WWII, was appointed president of the company in April 1946, partly because top management was ousted as part of the postwar reforms. IST had four plants in Nagano Prefecture (Matsumoto, Tatsuno, Kiso, and Ina), in addition to its main plant in Tsurumi, Yokohama. President Doko actively traveled back and forth among these factories, orchestrating the shift from military to civilian production in efforts to rebuild the company. Looking back, he recalled: “First, we made pots and pans to secure a living for our employees, and then we continued to make round trips between Tsurumi and Matsumoto for full-scale reconstruction. The trains we used were usually overnight trains. There were several nights when I slept standing up in the packed, overcrowded train.”⁵

Sustaining Toshio as president of IST was his iron-willed determination that “not a single employee and her or his family should go hungry.”⁶ To secure funds for paying wages, Toshio sometimes had to negotiate all night long with banks. Thanks to his leadership efforts, IST was able to overcome its postwar difficulties earlier than its parent company, Ishikawajima Heavy Industries.

Rebuilding the Management of Ishikawajima Heavy Industries

Ishikawajima Shipyard changed its name to Ishikawajima Heavy Industries (IHI) in June 1945, shortly before the end of the war. IHI was unable to break out of its postwar slump, and in 1950 it posted a deficit as large as 150 million yen. This led to calls for Toshio Doko, who had successfully restructured the subsidiary IST, to return to the IHI parent company. Eventually, he did so in June 1950. Exactly 30 years had passed since Toshio had joined Ishikawajima Shipyard in 1920.

Upon taking office as president of IHI, Toshio told the labor union that “I will not lay off any employees.”⁷ Then on New Year’s Day 1951, his first after taking office, Toshio stood at the entrance of the company and handed each employee the first issue of the company newsletter, “Ishikawajima,” which he had personally prepared. The newsletter contained the following specific goals for the company’s reconstruction: (1) establishing a plant-by-plant profitability system;

⁴ *Ibid.*, pp. 104–105.

⁵ Doko, T. (2012). Doko Toshio: watashi no nirekisho (*Toshio Doko: My résumé*) (p. 83). Tokyo: Nihontoshō Center Co., Ltd.

⁶ *Op. cit.*, Matsuzawa, M. (1992), p. 109.

⁷ *Ibid.*, p. 116.

(2) establishing sound management; (3) planning order-taking and consolidating product models; (4) utilizing the organization and improving administrative efficiency; and (5) enhancing corporate culture and spirit. This managerial approach gradually permeated IHI and the labor union began to cooperate with corporate restructuring, softening its confrontational tone. President Doko succeeded in restructuring IHI without layoffs.

In 1954, when Toshio was hard at work rebuilding IHI, the so-called shipbuilding scandal broke out, when kickbacks tied to the government's assistance for shipbuilders' interest payment reached political circles, leading to the arrest of more than 100 people from the political, public, and private sectors. The prosecutors' investigation extended to IHI as well, and even though he was not involved, Toshio was detained for twenty days, and recalled the incident as follows:

I was arrested as one of the presidents of shipbuilding companies and spent twenty days in detention. I was waiting for the bus at the bus stop in front of my house as usual when a prosecutor from the Tokyo District Public Prosecutor's Office approached me and asked: "Do you have a moment to go back to your house?" After a two-hour search of my house, I was ordered to turn myself in voluntarily. The chief prosecutor of the Tokyo District Public Prosecutors Office was Mr. Nobutaro Kawai, but I think my case was assigned to Prosecutor Terashima.

I heard that the prosecutor in charge later told reporters that when he saw my ramshackle house and the way I commuted by train, he said: "Oh, I had a gut feeling that this person was different."

But I learned a new lesson in my twenty days in jail. "Life is full of unexpected pitfalls. You must separate the public and the private, always be neat and tidy, and live steadfastly."⁸

In the end, it was confirmed that Toshio had nothing to do with the scandal, and he was released without being indicted. The anecdote – that the prosecutor in charge of the case was impressed by Toshio's "integrity and honesty" when he learned that his house in Tsurumi, Yokohama, was modest and that he commuted by bus and train instead of using a company car – is very impressive. Toshio gleaned a lesson from this unfortunate experience and further refined his "integrity and honesty."

Under the leadership of President Toshio Doko, the restructuring of IHI progressed. In getting the company back on track, the development and introduction of new technologies played important roles; he recalled:

Behind the scenes of such breakthroughs, Ishikawajima made continual efforts, first in its own technological development, and second in the introduction of foreign technologies.

First, in the year 26 [Showa 26 or 1951] the company formed a technical partnership with ETNA Japan in ironmaking machinery, and in Showa 27, it formed a partnership with U.S. Foster Wheeler for land and marine boilers, paving the way for high-temperature, high-pressure boilers. The company also launched a joint venture with U.S. Calling Co., and established "Ishikawajima Calling," introducing construction machinery technology. In addition, the company incorporated pneu-matic machinery technology from the U.S.-based Joy Corporation.

⁸ *Op. cit.*, Doko, T. (2012), pp. 98–99.

In Showa 31, the company introduced gas turbines for aircraft in partnership with GE, followed by marine turbines and land-based turbine auxiliaries. At this time, the company had introduced about 80 technologies. I can't tell you how many times I traveled back and forth between Japan and Europe and the U.S. to sign these partnership agreements.

However, although the main purpose behind the enthusiasm and willingness in introducing these technologies to Japan was to eliminate the technological gap after the war, technological adoption was made possible by the excellence of the Japanese technical staff. . . It was possible first and foremost because [the U.S. and European counterparts] had confidence in their technical standards.⁹

As these words indicate, Toshio was never satisfied with simply importing a new technology, but aimed to connect it with his own company's technological development to produce technological innovation. He was aiming to recreate the experience of his youth prior to the war, when he learned from the technology from Escher Wyss, and eventually achieved the domestic production of a large turbine. With technological innovation serving as a driver, IHI set upon a growth path.

This growth was symbolized by the company's entry into the Brazilian market. In January 1958, President Doko signed an agreement with the Brazilian government, and by the end of the same year, Ishikawajima Brazil Shipyard (commonly known as “Ishi-Bras”) was born. Although executives at IHI's main bank Dai-Ichi Bank were opposed to the company's Brazilian foray, Toshio established Ishi-Bras because he believed that expansion overseas was the only way for Japan's shipbuilding industry to continue growing. He made painstaking preparations for entering the Brazilian market. International travel was far less convenient than today, but Doko made more than a dozen trips to Brazil. In 1960, the Brazilian government awarded him the Order of the Southern Cross as a token of appreciation for his decision to enter the country's market not long after the war's end – the first time that a Japanese national received this honor.

In December 1960, IHI and Harima Shipbuilding & Engineering merged to form the new company Ishikawajima-Harima Heavy Industries (new IHI). It was a complementary merger between IHI which had a strong land-based division and a weak shipbuilding division, and Harima Shipbuilding & Engineering which had a strong shipbuilding division and a weak land-based division. It became a great success. Toshio Doko, President of IHI, attending the merger's press conference together with Harima President Shuzo Mutsuoka, said in a plain-spoken manner: “This is a merger of land and sea. It is not a merger in which one and one are combined to make two, but nuclear fusion in which one plus one becomes three or four.¹⁰” Ishikawajima-Harima Heavy Industries became a familiar name to the public through the abbreviation IHI, with the company growing steadily. Upon the establishment of IHI, Toshio was appointed president of the company, with Mutsuoka serving as chairman.

⁹*Ibid.*, p. 97.

¹⁰*Op. cit.*, Matsuzawa, M. (1992), p. 147.



Toshio Doko at the time of the merger of Ishikawajima Heavy Industries and Harima Shipbuilding & Engineering (1960) (Provided by Asahi Shimbun/Jiji Press Photo)

Rebuilding Toshiba's Management

Toshio Doko became chairman of the merged IHI in 1964. The following year, the Japanese economy experienced the so-called 1965 Recession, dubbed the “biggest postwar recession.” During this recession, Tokyo Shibaura Electric Company (Toshiba), one of Japan’s leading general electronics manufacturers, also struggled and fell into crisis. Toshiba was created in 1939 when Shibaura Seisakusho, which along with Ishikawajima Shipyard was the parent company of Ishikawajima Shibaura Turbine, merged with Tokyo Denki. Taizo Ishizaka, chairman of Toshiba, attempted to rebuild the company by appointing Toshio Doko as president in May 1965. Ishizaka had been called the “prime minister of the business world” since he became the second chairman of Japan Federation of Economic Organizations (Keidanren) in 1956, and Toshio Doko had long held him in deep respect. Also, after having served as president of Ishikawajima Shibaura Turbine, Toshio was no stranger to Toshiba’s crisis.

When Toshio Doko became president of Toshiba, he first introduced himself to the labor union. After seeing this respectful attitude from Toshio, the union did not feel the same distrust as it did toward previous presidents. His approach gradually gained acceptance among union members as he proclaimed, “Due to these circumstances, I cannot pay you as much as other companies at this time. But if you work hard and make a profit, I will make sure that compensations are competitive with others. Even when we earn a profit, it doesn’t mean it will go straight to my own pocket, so I will distribute it fairly¹¹”.

¹¹ *Op. cit.*, Horie, Y. (1999), p. 197.

President Toshio Doko’s “Toshiba Revolution” focused above all on changing employees’ attitudes. He repeatedly said, “General employees should think three times harder than before, executives work ten times harder, and I myself work even harder than that,¹²” and he led by example. He continued to commute to work early in the morning by train, including on Sundays (Japan then had a 6-day work week), and remodeled the president’s office that used to have its own bathroom, toilet, and kitchen, into a simple one. He also substantially delegated authority to the heads of business divisions¹³ and further spearheaded sales activities himself, calling them “President’s Sales.”

In 1965, with the recession deepening, Toshio, as Toshiba President, formulated a medium-term management plan that covered a two-year period from fiscal 1966 to fundamentally strengthen the company’s structure. Its five priority items were: (1) improving asset efficiency; (2) establishing production systems; (3) improving business management systems; (4) strengthening the development of technology; and (5) enhancing sales systems.

Of these, Toshiba focused on strengthening its technological capabilities with new products and technologies and fields that would boost sales and profits. It is noteworthy here that “For the promotion of R&D, and moreover, for the company’s continuous development, even during periods of poor performance due to the economic downturn, 3–4% of sales were set aside for R&D, in anticipation of a dramatic advancement in its capacity to develop technologies. In order to strengthen the capacity to develop technologies across the company, they needed to enhance the management of technology comprehensively. For this purpose, in July of Showa 41 [1966], a newly established engineering headquarters directly reported to the president.¹⁴” Thus, the essence of Toshio’s corporate restructuring measures featured radical measures that would enable long-term development rather than short-term, symptomatic treatments.

Under Toshio Doko’s leadership, Toshiba revived phoenix-like by successfully rebuilding Ishikawajima Shibaura Turbine, Ishikawajima Heavy Industries, and

¹² *Op. cit.*, Doko, T. (2012), p. 118.

¹³ The transfer of authority to the business manager did not remove the president’s responsibility. See Sakakibara, H. (1976). Hyoden Doko Toshio (*A critical biography of Toshio Doko*). Tokyo: Kokusai Shogyo Publishing Corp.: “Even if the president and the board of directors transfer all authority to the business manager, the final responsibility rests with the president. Therefore, Doko established the managing directors’ meeting, the business operation managers’ meeting, the monthly reporting meeting of business managers, and so on, to provide a forum for discussion between the business operation managers and the other middle-level managers. The proposals from the business operation managers to the middle-level managers were called *challenge* by Doko and the opinions of the middle-level managers were called *response*. The expressions *challenge* and *response* were borrowed from a work by Toynbee, much studied by Doko when he was the chairperson of IHI” (pp. 98–99). Note that IHI stands for Ishikawajima-Harima Heavy Industries, and that Toynbee is the British historian Arnold J. Toynbee.

¹⁴ For the discussion above, see Tokyo Shibaura Electric Co., Ltd. (Eds.) (1977). Toshiba hyakunen-shi (*One hundred year’s history of Toshiba*) (p. 119). Tokyo: Tokyo Shibaura Electric Co., Ltd.

Toshiba. Over time, Toshio became known as “the fine physician of the business world” because he adhered to a management philosophy that consisted of the following three elements:

1. Rationalizing thoroughly
2. Presenting a long-term vision
3. Exercising vitality

From Keidanren Chairman to “Mr. Administrative Reform”

Toshio Doko became the chairman of Toshiba in 1972. Two years later, in May 1974, he was elected the fourth chairman of Keidanren. The “fine physician of the business world” finally transformed himself from being a fine doctor restoring the health of individual companies to one who restored the entire business community of Japan.

When Toshio became chairman of Keidanren, Japan was experiencing severe price hikes brought on by the first oil crisis. It was also the time when the Lockheed bribery scandals came to light and the collusion between the political and business worlds drew sharp criticism from the public. Looking back, he noted:

The recession triggered by the oil shock was somehow overcome through the efforts of each company, but other problems continued to crop up one after another, sometimes simultaneously.

First, in August of year 49 [Showa 49; 1974] commotion followed my statement that “Keidanren does not act as a collection agent for political donations. In the first place, “donations should be made on an individual level.” Some people said, “Doko is blackmailing the Liberal Democratic Party with the money of the business community behind him,” or “He is clueless about politics.” Without a thought for personal gain, I presented what I considered a sound argument only because I wanted the conservative party [LDP] to stay on the straight path. There was a lot of wrangling, but the issue was eventually settled by the reorganization of contact points.¹⁵

The appointment of the “clean and fair” Doko as chairman of Keidanren did much to restore public trust in that business organization.

After serving three terms as president of Keidanren over six years, Toshio Doko went on to serve as chairman of the Ad Hoc Administrative Research Council (Rincho) starting in March 1981 and as chairman of the Ad Hoc Administrative Reform Promotion Council (Gyokakushin) starting in July 1983. Rincho is an advisory body directly under the Prime Minister. Rincho vigorously issued numerous recommendations on issues such as reducing the public’s burden, simplifying administrative procedures, reviewing the nation’s institutions, systems, and policies, and methods of pressing ahead with future administrative reform. Rincho had been established earlier, in 1961 (the First Ad Hoc Administrative Research Council), and was technically the Second Ad Hoc Administrative Research Council (the Second

¹⁵ *Op. cit.*, Doko, T. (2012), pp. 137–138.

Rincho) over which Toshio assumed chairmanship. The Gyokakushin, on the other hand, was a temporary body established in the Prime Minister’s Office to monitor implementation of Rincho’s recommendations.

Despite his advanced age, Toshio, who came to be known as a “selfless man” and a “man of conviction” through his rebuilding of individual companies and reform of Keidanren, was uniquely qualified to serve as chairman of Rincho and Gyokakushin. He devoted his later years to administrative reform, and the Japanese public came to refer to him as “Mr. Gyokaku (Mr. Administrative Reform)” with awe. A well-known episode occurred one week before the release of the Third Report by the Second Rincho. On July 23, 1982, NHK Special (a special program by the NHK Japan Broadcasting Corporation) program entitled “An 85-year-old’s perseverance: The face of the administrative reform, Toshio Doko” was broadcast on television and caused a huge sensation.

The dinner menu of Mr. and Mrs. Doko shown on TV consisted only of mezashi (dried fish), some greens, miso soup, and brown rice. The frugal lifestyle of a top figure in the business world took many people by surprise and reminded them of the importance of frugality. At the same time, they were also deeply moved by the consistency and seriousness of his stance toward administrative reform aimed at eliminating wasteful spending. This broadcast instantly popularized the image of “Mezashi no Doko-san” (Mr. Dried Fish Doko), was proof that even in the last years of his life, Toshio remained committed to “thorough diligence” and “leading by example.”

A Sense of Crisis Harbored by Doko

Toshio Doko’s strong desire for administrative reform was triggered by the article “Suicide by Japan,” co-authored by “Group 1984,” and appearing in the February 1975 issue of the *Bungeishunju* magazine. The article warned that the decline of ancient Greece and the Roman Empire bore a striking resemblance to the situation in Japan. Doko summarized the contents as follows:

The situation is so similar that the story of Rome [the Roman Empire] and [ancient] Greece could be taken word for word as the story of Japan without any contradiction, and if the country name Japan replaced Rome and Greece, the story would still be the same.

The research group ([“Group 1984” that wrote the article] found that the results exceeded their expectations, saying, “The more we entered the world of the fall of Greece and Rome through these fragments of historical documents, the more we grew acutely aware of the magnitude of the crisis of Japan’s political, economic, social, and cultural downfall.”

Then the authors went on to warn that “. . .should Japan decline in the future, the historians of the future may compare Japan to Rome and may call it a ‘second Roman Empire’.” Finally, they quoted Cyprian [Bishop of Carthage] as they warned readers:

“Herein you must in the first place learn that the world is now reaching its old age, that it stands no longer in its pristine strength, no longer keeps its indwelling vigor and force. This though we ourselves should speak it not. . . still the world itself declares it, and attests its own ruin in the tottering estate of things.”

(“The Treatises of S. Caecilius Cyprian, Bishop of Carthage, and Martyr” Translated by Members of the English Church. Oxford: James Parker & Co. and Rivingtons. 1876, pp. 200–201).¹⁶

Toshio felt that this article “Suicide by Japan,” “should be read by as many people as possible, so with the publisher’s approval I made tens of thousands of copies and distributed to people in the business community.¹⁷” He indeed shared with “Group 1984” a strong sense of crisis about the future of Japan.

Toshio Doko passed away in August 1988, in the midst of Japan’s economic bubble. Unfortunately, the sense of crisis he held in his later years turned into reality. Japan’s society and economy made a darker turn after reaching its peak in 1989, the year the Japanese calendar changed the name of the era from Showa to Heisei. The 1990s were dubbed the “Lost Decade,” and Japan’s economic slump became a prolonged affair thereafter. For Japan today, still struggling to emerge from the crisis, Toshio Doko’s ideas and his way of life can still be a “guiding star.”¹⁸

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter’s Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter’s Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



¹⁶ *Ibid.*, pp. 14–15.

¹⁷ *Ibid.*, p. 15.

¹⁸ For this discussion, see *op. cit.*, Kikkawa, T. (2017b).

Discussion Point 3: How Did Japan’s Economy Continuously Grow Over a Long Period? Catch-Up and Domestic Demand



Abstract This section disagrees somewhat with traditional, *export*-driven “Catch-Up Industrialization Theory” to explain the long, almost uninterrupted growth of Japan’s economy until the 1980s. Increasing *domestic* demand consumption—as a result of ongoing incremental innovation, increased organizational capacity, and private-sector capital investment—is argued to be the main driving force.

Examining Akira Suehiro’s “Catch-Up Industrialization Theory”

The long period of the Japanese economy’s relatively high growth from World War I to the 1980s can be seen as the result of catch-up industrialization aimed at drawing level with, and then surpassing, Western countries. In Japan’s case, the road was long and arduous because of the defeat in World War II.

Akira Suehiro’s “Catch-up Style Industrialization Theory” (Nagoya University Press, 2000) systemically analyzes catch-up industrialization. Although the book does not directly focus on Japan, by applying his arguments it is possible to understand the characteristics of Japan’s economic growth.

Suehiro characterizes “catch-up industrialization” as “export-driven industrialization.”¹ Although there are different types of “catch-up industrialization,” such as NICs (Newly Industrializing Countries) and NAICs (Newly Agro-Industrializing Countries), they all have one thing in common: export-driven industrialization.² When Suehiro discussed the production, export, and overseas production of televisions in Asia, the sales channels envisioned there were not intended to satisfy domestic demand in the respective countries of origin (including Japan), but were geared toward the overseas market, especially the United States.³

¹ Suehiro, A. (2000). *Kyacchiappu-gata kogyoka-ron: Ajia keizai no kiseki to tenbo (Catch-up style industrialization theory: The trajectory and prospects of Asian economies)* (p. 94). Nagoya: Nagoya University Press.

² *Ibid.*, pp. 137–143.

³ *Ibid.*, pp. 52–55.

The problem here is that Suehiro “stands on the understanding that Japan was the most typical example of ‘catch-up industrialization’.”⁴ However, as Suehiro himself admits to some extent,⁵ Japan’s economic growth after World War II was driven by domestic demand, not by exports. It is somewhat unreasonable to suggest that postwar Japan achieved domestic demand-driven economic growth while also claiming that Japan was the most typical country of export-driven “catch-up industrialization”. However, it is well known that the national consensus to “catch up and overtake” the Western countries was an important driving force in Japan’s postwar economic growth. Thus the “catch-up industrialization theory” cannot simply be dismissed as an argument irrelevant to postwar Japan.

There are two ways to resolve this dilemma. One is to take the position that Japan was the most typical country of export-driven “catch-up industrialization” in the prewar period but not in the postwar period. The other is to modify the characterization of “catch-up industrialization” to incorporate the role of domestic demand in the industrialization process.

The former is not an altogether appropriate position. While true that Japan’s economy was generally more dependent on exports in the prewar period than in the postwar period, there remains undeniable inaccuracy in the view that Japan’s economic development was export-driven in the prewar period when exports and income from abroad as a percentage of nominal gross domestic expenditure accounted for 5% (1885), 6% (1890), 10% (1895), 11% (1900), 13% (1905), 15% (1910), 20% (1915), 19% (1920), 20% (1925), 17% (1930), 23% (1935), and 20% (1940).⁶ In other words, the view that Japan was the most typical example of the export-driven “catch-up industrialization” in the prewar period is not fully credible; the latter approach, taking into account the role of domestic demand as well as exports, is more credible.

In fact, Suehiro’s “Catch-Up Industrialization” in several places also mentions the role of domestic demand in the economic development of Asian countries. For example, Suehiro introduces without any critical commentary Hitoshi Hirakawa’s theory that “Asian NIEs” (Newly Industrializing Economies) are a developmental stage of NICs that “achieved growth not only through exports but also by incorporating domestic demand.”⁷ Based on Thailand’s experience, Suehiro states that “the expansion of newly emerging agricultural products and the growth of agro-industry, through higher incomes for rural and regional merchants and upper class farmers, provided an expanding domestic market for import-substituting industries.”⁸ In his final chapter, Suehiro predicts that “catch-up industrialization” in Asian countries

⁴*Ibid.*, p. 13.

⁵Suehiro notes: “For Japan, the ratio of exports against its nominal GDP was 9% in 1960, 12% in 1980, and 10% in 1999. Therefore, it is no longer accurate to refer to Japan an export-based economy” (*op. cit.*, Suehiro, A. (2000), p. 306).

⁶*Op.cit.* Ando, Y. (Ed.) (1975), p. 7.

⁷*Op. cit.*, Suehiro, A. (2000), p. 19.

⁸*Ibid.*, pp. 141–142.

will continue, citing the persistence of the "growth ideology" as one argument: "People's inclination toward 'affluence' will only increase, never decrease."⁹ Suehiro's standpoint is that Asian countries that followed the path of "catch-up industrialization" already established a certain degree of orientation toward "affluence." Thus, Suehiro's "catch-up industrialization theory" seems to leave plenty of room for the role of domestic demand.

Examining the World Bank's "East Asian Miracle"

The World Bank's "The East Asian Miracle"¹⁰, published in 1993 discusses eight High-Performing Asian Economies (HPAEs)—Japan, Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, and Indonesia—discussing the relationship between high economic growth and public policies in these countries.¹¹ The paper also argues that each of these countries' governments introduced "export standards," encouraging competition among private-sector companies to meet such standards, an argument similar to Akira Suehiro's "Catch-up Industrialization theory."

Does the World Bank's view in "The East Asian Miracle," that export standards have been adopted in HPAEs, including Japan, hold true? As far as Japan is concerned, the answer to this question must be probably not.¹²

Table 1 shows the trend of export dependence in the six East Asian countries for every five-year period starting in 1975. This table shows that Japan's dependence on exports was considerably lower than that of Singapore, Malaysia, Thailand, Korea, and Indonesia.

Japan's dependence on exports stayed below 10% during its period of high economic growth. Specifically, the figures were 9.6% in 1960, 9.6% in 1965, and 9.8% in 1970.¹³ Domestic demand, such as personal consumption and private-sector capital investment, drove Japan's rapid growth, not exports.

⁹*Ibid.*, pp. 308–309.

¹⁰The World Bank (1993). *The East Asian miracle*. New York: Oxford University Press.

¹¹See The Study Society on the Question of the Development of Overseas Economic Cooperation Fund (trans.) (1994). Higashi-ajia no kiseki: Keizai seicho to seifu no yakuwari (*The miracle of East Asia: Economic growth and the role of government*). Tokyo: Toyo Keizai Inc.

¹²For discussion of the difference between the World Bank view in *The East Asian Miracle* and the reality in Japan, see Kikkawa, T. (1998b). Keizai kaihatsu seisaku to kigyō: Sengo-Nihon no keiken (*Economic development policy and companies: Japan's postwar experience*). In the Institute of Social Science, The University of Tokyo (Eds.), Nijuseiki shisutemu 4 kaihatsushugi (*twentieth-century system 4: Developmentalism*). Tokyo: University of Tokyo Press.

¹³The ratio of the value of export (f.o.b. value) against the gross national product. Based on Statistics Bureau of Japan, Ministry of Internal Affairs and Communications (Eds.) (1985). Kokusai tokei yoran senkyuhyakuhachijugonen-ban (*Handbook on international statistics (1985 edition)*); and Statistics Bureau of Japan, Ministry of Internal Affairs and Communications (Eds.) (1994). Sekai no tokei (senkyuhyakukyūjūyōnen) (*World Statistics (1994)*).

Table 1 “Changes in Export Dependence of Six East Asian Countries” (1975–1990) (Unit: %)

Country	1975	1980	1985	1990
Japan	11.2	12.5	13.0	9.7
South Korea	24.4	28.6	33.7	26.8
Singapore	95.6	177.8	124.4	148.7
Thailand	15.1	19.8	19.4	29.1
Malaysia	42.7	56.3	52.8	72.6
Indonesia	24.4*	31.6*	22.2	25.3

Note: Ratio of exports (Free On Board price) to gross national product (GNP). However, * indicates the ratio based on Cost, Insurance, and Freight (CIF) price

Source: “International Statistical Handbook (1985 Edition),” Statistics Bureau, Management and Coordination Agency of Japan [predecessor of the Ministry of Internal Affairs and Communications], “Global Statistics” (1994 Edition), Ibid

In the 1980s, Japan's trade surplus grew substantially. This was not the result of industrial policies aimed at promoting exports as the World Bank's “The East Asian Miracle” suggests. Rather, it was the result of the growing organizational capacity of Japanese firms, forged by stiff competition in the domestic market.

Long-Term Growth as a Result of Incremental Innovations

The second of the three questions presented in this book's Introduction concerning Japanese business is: “How was it possible for the Japanese economy, once on a growth path, to achieve high growth over a long period of time, a feat rarely seen in world history?” In closing Part II, which focuses on the period from the end of the Meiji era to the 1980s, I would like to answer this question from the perspective of innovation. That is: “Incremental innovation resulted in a prolonged period of relatively high growth driven by domestic demand.”

A necessary condition that enabled the long period of the Japanese economy's relatively high growth was the continuous expansion of Japan's domestic market. The transition to a mass consumer society began with World War I and temporarily stalled during World War II, but progressed more rapidly after the war. The shift to a mass consumer society also proceeded in Europe and the United States, but in Japan, the consumer revolution progressed to a greater and deeper extent not only because the disposable income of the Japanese people increased but also because their lifestyles became Westernized at the same time. In addition, active capital investment in the private sector accelerated the expansion of domestic demand in the 1930s as well as during the period of rapid postwar growth. This increase in private-sector capital investment was arguably the most important factor in Japan's higher economic growth, surpassing that of Western industrialized nations. Thus, from the 1910s through the 1980s, the Japanese economy enjoyed relatively high growth

driven by domestic demand, unlike other East Asian countries and regions whose growth was dependent on exports.

If the necessary condition for Japan's relatively high growth was the expansion of domestic demand, the sufficient condition was the "increased organizational capability of Japanese companies" led by innovative entrepreneurial activities. To link the expansion of domestic demand to economic growth, it was necessary to comprehensively enhance fundamental corporate activities, to "create, manufacture, and sell." To do so, the development, manufacturing, and sales divisions of a company needed to share information and work closely with each other in implementing a series of "kaizen" (improvements). Incremental innovation, symbolized by the word "kaizen," was a sufficient condition for the Japanese economy to achieve relatively high growth over a long period of time.

Of course, the period from the 1910s to the 1980s also saw breakthrough innovations such as the invention of Ajinomoto by Kikunae Ikeda and the automatic loom by Sakichi and Kiichiro Toyoda. However, Ajinomoto Co.'s development thereafter as a comprehensive food manufacturer, led by Saburosuke Suzuki II who succeeded in commercializing the unique breakthrough innovation, can be attributed to a series of incremental innovations. Additionally, what decisively increased the international competitiveness of Toyota Motor Corporation, effectively founded by Kiichiro Toyoda, was the establishment and evolution of the "Toyota Production System." Toyota System became a symbol of incremental innovation, closely aligned with the word "kaizen" (improvement). In general, during this period, breakthrough innovation was a partial phenomenon, and incremental innovation was dominant.

Many cases of incremental innovation start with a proactive response to customer needs. This focus on customers was common to all entrepreneurs discussed in Part II, from Ichizo Kobayashi and Yasuzaemon Matsunaga, who pioneered urbanization and electrification, to Konosuke Matsushita, who initiated the "consumer revolution." This focus on customers helped cultivate deeper domestic demand.

At the same time, the entrepreneurs discussed in Part II also actively and boldly invested in new businesses whenever they saw opportunities. This stance was evident in the case of Shitagau Noguchi, Yoshisuke Aikawa, and Sazo Idemitsu, who, despite the enormous risks involved, forged into the continent before World War II. Yataro Nishiyama was another driving force behind the rapid economic growth of the postwar period, pioneering large-scale capital investment.

However, the series of active and bold investments by innovative entrepreneurs that led to the long-term growth of the Japanese economy eventually began to wane. The sense of crisis harbored by Toshio Doko in the late 1980s would turn into a reality during the period covered in Part III.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Part III
The Era of Struggle: Japan Caught
Between Two Types of Innovation

Overview 4: Japan Since the 1990s



Abstract This section surveys the main factors underlying Japan’s economic stagnation over the past thirty years: dysfunctional management beset by “investment restraint”; local bank panics in 1997–1998; the global Great Recession in 2008; the massive earthquake and tsunami in 2011; and Japan’s demographic decline. Four successful entrepreneurs who were nevertheless successful during this period—Kazuo Inamori, Toshifumi Suzuki, Tadashi Yanai and Masayoshi Son—are each analyzed here for their innovative contributions.

The Japanese Economy Takes a Darker Turn

In Part III, we will look at three cases covering a total of four innovative entrepreneurs who have been active during the period from the 1990s to the present day. During this period, Japan’s economy and its companies were forced into a prolonged slump, caught between breakthrough innovations in information and communications originating in developed countries and by “disruptive innovation” coming from latecomer nations that have rapidly caught up.

The 1990s is often referred to as a “Lost Decade” for the Japanese economy and Japanese companies. As seen so far, for more than three-quarters of a century since the 1910s, except for a brief period immediately after defeat in World War II, Japan’s economy enjoyed relatively high growth among capitalist countries. In the 1990s, however, Japan’s economy swiftly fell from “honor student” status to “failed student” in terms of economic growth among the developed countries participating in summit meetings.

In 1997–1998 (Heisei 9–10), the “Heisei Financial Panic” surfaced in the form of bankruptcies of Hokkaido Takushoku Bank, Yamaichi Securities, Long-Term Credit Bank of Japan, and Nippon Credit Bank. This was considered comparable to the “Showa financial crisis” of seventy years earlier in 1927 (Showa 2). In addition, at the end of the 1990s, Japan experienced its first full-scale deflation (a sustained fall in the general level of prices) in about half a century since the deflation triggered by the Dodge Line in 1949, a measure adopted after the country’s defeat in WWII.

The so-called Lehman Shock exacerbated Japan's economic downturn. In September 2008, Lehman Brothers, a major investment bank in the United States, went bankrupt, sweeping the entire world into a recession. This simultaneous global recession dealt a serious blow to Japan's economy as well.

Apart from the global recession triggered by the Lehman Shock, Japan experienced its own massive tragedy and dilemma: the Great East Japan Earthquake and the nuclear accident at the Fukushima Daiichi Nuclear Power Plant run by Tokyo Electric Power Company (TEPCO).

At 2:46 p.m. on March 11, 2011, the massive Great Tohoku Earthquake hit the Tohoku region, reaching 9.0 on the Richter scale. The earthquake and subsequent tsunami brought about the largest natural disaster in Japan's postwar era, leaving nearly 20,000 people dead or missing.

The Great East Japan Earthquake was also significant in that it was accompanied by the Fukushima Daiichi Nuclear Power Plant accident, rated Level 7 ("serious accident") on the International Nuclear Event Scale (INES) for evaluation of accidents and malfunctions of nuclear facilities. The level was on par with the 1986 Chernobyl Nuclear Power Plant accident in the former Soviet Union, considered the worst in history; the aftermath still prevents many residents from returning to the area to date.

Underlying the downturn of the Japanese economy and companies since the 1990s was an unprecedented and serious situation: the decline in the Japanese population after 2005. In December 2005, the Ministry of Health, Labor and Welfare (MHLW) released its "Vital Statistics" (annual estimates) for the year. According to the report, the number of births was 1,067,000, down 44,000 from the previous year, and the number of deaths 1,077,000, up 48,000 from the previous year, resulting in a "natural decrease" of 10,000 persons. For the first time on record since 1899 when such surveys began, the number of deaths exceeded the number of births.

A society with a declining population has advantages and disadvantages. Advantages include reduced consumption of energy, water, and other resources; reduced food consumption; reduced emission of carbon dioxide (CO₂) that contributes to global warming; and increased availability of land for purchase. A significant disadvantage is that economic growth slows as the size of the market contracts, and opportunities and appetite for investment decrease. Other serious problems include the reduction in the number of social and cultural bearers as well as decline in the country's global status. In sum, we conclude that a society with a declining population has more disadvantages than advantages.

Japanese-Style Management Turns Dysfunctional

In the mid-1980s, the country's corporate system was viewed favorably by the international community, as it reflected the strong performance of the Japanese economy. However, as Japan's economic bubble burst and the so-called Lost Decade began, criticism of the Japanese corporate system gained momentum.

The critiques were directed mainly at the Japanese management system. After the economic bubble burst in the early 1990s, Japanese-style management became less functional. It began losing esteem as the large, manager-centric companies, previously the main practitioners of Japanese-style management until the 1980s, lost confidence and came to prioritize shareholder- management systems.

To be clear, there is no problem in the large, manager-centric companies' taking a shareholder-oriented approach in post-1990s Japan. The rapid expansion of Japan's capital markets and financial globalization that began in the late 1980s required companies to raise funds from capital markets, and required companies to adopt a shareholder-oriented approach. The problem is that many manager-centric large corporations came to view shareholder-orientation as synonymous with pursuit of short-term profits, forgetting the long-term perspective that had been the strength of Japanese-style management.

Investment Restraint Mechanism

Often, companies equate a focus on shareholders with pursuit of short-term profits. In fact, from the 1960s to the 1980s, U.S. companies did likewise, failing to make necessary investments. This resulted in a "Japan-U.S. reversal" in some areas, causing U.S. companies to trail behind their Japanese counterparts. In the 1990s, however, U.S. companies began to invest aggressively with long-term vision while maintaining a shareholder-oriented stance, thereby moving ahead of their Japanese counterparts.

After the economic bubble burst, large manager-centric Japanese corporations actively pursued a shift to American-style management, emphasizing return on assets (ROA) and return on equity (ROE). In the United States, enjoying the "New Economy" in the 1990s, companies adopted a strategy of increasing ROA and ROE, investing aggressively to increase their A (assets) and E (equities), while at the same time increasing R (return) at a faster rate than A and E. By contrast, in Japan, many such companies tried to increase ROA and ROE by restraining investment and by reducing A and E.

Strictly speaking, the attempt to pare down inflated assets in Japan after the economic bubble burst was not in itself mistaken. If a company invests in assets to strengthen its competitiveness after such downsizing, it can revive its business. The problem was that many Japanese companies, despite having strengthened their fundamentals by downsizing their assets, did not make proper investments aligned with their growth strategies.

Although U.S. and Japanese companies generally shared the common goal of increasing ROA and ROE, companies took contrasting approaches to making investments. After the collapse of the bubble, what might be called an investment suppression mechanism became pervasive in Japan. In manager-centric Japanese firms where managers had lost confidence, companies did not undertake their essential function to make sufficient investments, and full-time employees actively

cooperated with that strategy. The advantages of the Japanese management system, which featured long-term vision and concomitant necessary investments, faded away.

Part III will focus on four entrepreneurs: Kazuo Inamori, Toshifumi Suzuki, Tadashi Yanai and Masayoshi Son. Despite the general managerial malaise, these managers remained exceptionally innovative even in the difficult times of the 1990s and beyond.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 18 Kazuo Inamori: Managerial Renewal by a Venture Manager



Abstract This chapter introduces Kazuo Inamori, founder of Kyoto Ceramic (Kyocera) and KDDI. Inamori was an entrepreneur who upheld his philosophy on management.

Inamori Begins Kyoto Ceramic (Kyocera) as a Venture Manager

One might object to inclusion of Kazuo Inamori in Part III covering the post-1990s period because Inamori founded Kyoto Ceramics in 1959 (Showa 34), and his success coincided with the rapid growth of the Japanese economy. However, there is a reason for situating Inamori in Part III rather than Part II. His entrepreneurial activities were characterized by bold risk-taking when he began as a venture manager. His future-oriented market cultivation and technological development were based on the premise of growth through learning rather than preservation of the status quo, and he continued to evolve through simple yet unique measures for organizational revitalization. Japanese business leaders had lost these elements during the period of stagnation, but all were crucial to revive Japan's economy. As if to prove the point, Kazuo Inamori continued to play an active role in the post-1990s period by putting Daini-Denden Inc. (DDI) back on track and rebuilding the bankrupt Japan Airlines.

Kazuo Inamori was born in 1932 (Showa 7) in Yakushi-cho, Kagoshima City. In the screening exams for junior high school, university, and employment, he was rejected by all of his first choices. He attended Kagoshima Junior High School (equivalent of high school in postwar Japan) and Kagoshima University (School of Engineering) before joining the Kyoto-based Shofu Industries. The company manufactured and sold insulators used in power grids, but was struggling under competitive pressure from Nihon Gaishi (NGK Insulators) and others, and was also mired in serious labor-management conflict.

Kazuo Inamori's activities at Shofu Industries were described by Tadao Kagono as follows:

Inamori's first assignment at Shofu Industries was the U-Shaped Kelcima, a special porcelain part for cathode ray tubes, commissioned by Matsushita Electronics. . . .

As a researcher, he worked on the development of manufacturing technology for the U-Shaped Kelcima. The development process was not easy. It was a difficult component to manufacture, and at the time only Philips had the capability to produce it. . . .

The company succeeded in developing a new ceramic material called Forsterite, and mass production of the U-Shaped Kelcima was underway. At the time, the television boom had just begun, and the U-Shaped Kelcima, a component of cathode-ray tubes, was expected to be in great demand. The company decided to move to mass production and Inamori was transferred to the Special Magnetic Section where he began developing production methods.

In the Special Magnetic Section, he pressed ahead with the determination to "rebuild this company with new ceramics." Refusing to accept transfers from the insulator division, which had surplus personnel, he personally handpicked a group of motivated employees. Despite the hardships, he succeeded in mass-producing the product.

As chief of the Special Magnetic Section, he worked on the development of forsterite-based ceramic vacuum tubes requested by Hitachi but was unable to produce anything satisfactory. Around that time, he had a conflict with the technical manager who had come from outside the company. Inamori decided to leave when the manager said, "With your technical skills and background, this is the farthest you can go. We will take care of the rest. Please excuse yourself from this project¹".

In 1957, when the mass production of the U-Shaped Kelcima began, Shofu Industries went on strike for two months. Inamori and staff at the Special Magnetic Section did not participate in the strike, and continued production of U-Shaped Kelcima to meet the demands of customers. The union's obstruction made it difficult to ship finished products from the factory, but a cooperative female employee managed to smuggle them out. The female employee later became Inamori's wife.

Despite all this hard work, the new head of the technical department insulted Kazuo Inamori's technical skills and background. It was only natural that Inamori decided to leave the company.

After leaving Shofu Industries, Kazuo Inamori founded Kyoto Ceramic Co in 1959. To launch a venture company, securing managerial resources and customers is essential. According to Minoru Shimamoto, in the case of Kyoto Ceramic, a "chain mobilization of managerial resources" was at work.²

Managerial resources consist of money, human and physical resources, but in terms of human resources, it was important that many of Inamori's capable subordinates from Shofu Industries moved to Kyoto Ceramic. It was also important that Masaji Aoyama, a Shofu Industries supervisor deeply impressed by Inamori, joined him at the new company as well. Aoyama brought his college classmates, who then were executives at Miyaki Electric Manufacturing, to meet Inamori. As a result of strong persuasion by Aoyama and Inamori, Miyaki Electric executives, including

¹Kagono, T. (1998). Bencha keieisha Inamori Kazuo (kyosera) (*Venture manager Kazuo Inamori, Kyocera Corporation*). In *Op. cit.*, H. Itami, T. Kagono, M. Miyamoto, & S. Yonekura, (Eds.), (*Case book management behavior of Japanese companies 4: Images of businessmen and the spirit of the times*) (p. 360).

²Shimamoto, M. (2005). Kyosera keiei shigen no rensateki doin (*Kyocera Corporation: The chain mobilization of management resources*). In S. Yonekura (Eds.), *Kesubukku Nihon no sutatoppu kigyo (Case book on Japanese startups)* (pp. 108–115). Tokyo: Yuhikaku Publishing Co., Ltd.

company president Otoya Miyaki, agreed to provide Kyoto Ceramic with start-up capital. In addition, Kyoto Ceramic leased the company building and factory from Miyaki Electric. In this way, Miyaki Electric played the role of an angel investor, not only in terms of money but also in terms of physical resources, activating the mechanism of “chain mobilization of managerial resources.”

What about securing customers? Minoru Shimamoto writes:

At first, Inamori was not sure if Matsushita Electric would place a new order with Kyocera for this component [U-Shaped Kelcima], but as they had been hoping, Matsushita Electronics transferred orders for 200,000 units to Kyocera from Shofu Industries out of the original 400,000-unit order placed with Shofu. This was partly to hedge risk by placing parallel orders with two companies to prepare for an increase or fluctuation in the number of deliveries, but above all it was because Matsushita Electronics trusted this small newborn company due to Inamori’s prioritizing of delivery even during the strike.³

Thus, Kazuo Inamori successfully launched Kyoto Ceramic.

Future-Oriented Market Cultivation and Technological Development

After its successful launch as a startup company through the development of the U-Shaped Kelcima, Kyoto Ceramic actively sought a growth strategy for the company’s next phase. Significant in this process was Inamori’s pursuit of future-oriented market cultivation and technological development. It was based on the premise of growth through learning, rather than the maintenance of the status quo.

Minoru Shimamoto explains:

There was no way that orders for the U-Shaped Kelcima would continue forever, and it was inevitable that Kyocera’s future growth depended on expanding its product repertoire. Inamori took the U-Shaped Kelcima to Hitachi, Toshiba, Mitsubishi Electric, Sony, and other companies that were researching and developing electron tubes at the time, inquiring about the needs for ceramic-based electronic components using materials such as forsterite and alumina Since home appliances were becoming popular during this period of rapid economic growth, domesticating the production of expensive foreign-made parts was an important issue for electrical appliance manufacturers. Therefore, different electronics manufacturers gradually began to make proposals to Inamori, who visited them on sales trips, asking Inamori if he could produce such and such ceramic parts for electronics.

On such occasions, surprisingly, Inamori immediately responded, “We can do it,” even if he did not know if the parts could be completed with Kyocera’s technological capabilities at the time. Still, he kept responding to their requests. Thus, Kyocera first obtained orders, then developed new technologies to manufacture the products, managing to produce orders barely in time. Behind this seemingly reckless approach was Inamori’s strong belief that whatever could be made abroad could also be made at his company, and his view that even if the technology was not yet perfected, his company could perfect it in the future. The

³*Ibid.*, p. 115.

company based its decisions for taking orders not on its technological capabilities at the time, but rather on the assumption of future progress.⁴

This attitude and approach delivered great results in developing ceramic multilayer packages for semiconductor integrated circuits. Kyoto Ceramic “received an inquiry in the spring of 1969 from Fairchild Corporation of the United States for a high-density package. Two ceramic boards with printed electronic circuits, 25 mm long, 25 mm wide, and 0.6 mm thick, were stacked on top of each other, and the two boards were electrically connected through 92 0.25 mm holes, with 36 pins protruding from the periphery. The request was to develop this in three months.⁵”

It was extremely difficult for Kyoto Ceramic to meet this order. Tadao Kagono explains that overcoming these difficulties gave birth to a unique confidence within Kyoto Ceramic. Kagono begins by quoting Inamori’s own words:

The development team worked tirelessly for about two months, sleepless and uninterrupted, and even forgot to eat if left unattended. The joy we felt when we finally managed to create the product, even if it was only one piece, was irreplaceable.

The engineers involved in its development were completely focused on the task. In the process of producing a single good product, awake or asleep, they kept thinking of solutions to overcome the successive obstacles. They never ran away from difficult situations but earnestly tackled development head-on.

As they continued, the technical problems that had seemed so difficult were gradually resolved. It was as if God had been watching our desperate efforts and was so moved by our pitiful state that He reached out His hand to us.

Sometimes, in a situation of pain and suffering and dire need, we may discover a phenomenon that we had overlooked earlier and solve the problem in one fell swoop. This moment, that we might call a revelation whispered by God, must be the path that leads to genuine creation.⁶

Commenting on Inamori’s words, Kagono wrote: “Production of multilayer packages for semiconductors began the following year, in 1970. Through this kind of work, a unique belief was created within Kyocera: the belief that a desire penetrating even to the subconscious plays a decisive role in the fulfillment of a mission.⁷”

The successful development of ceramic multilayer packages brought about significant advances in the business development of Kyoto Ceramic. Officially changing its name to Kyocera in 1982 (Showa 57), it evolved into a global company.

⁴*Ibid.*, pp. 116–117.

⁵*Op. cit.*, Kagono, T. (1998), p. 368.

⁶Inamori, K. (1997). *Keiten aijin: Watashi no keiei wo sasaetamono (Respecting heaven and loving people: What supported my management)* (pp. 84–86). Kyoto: PHP Institute, Inc. This expression is quoted in *op. cit.*, Kagono, T. (1998), pp. 368–369.

⁷*Op. cit.*, Kagono, T. (1998), p. 370.

Hourly Profit System and “Amoeba Management”

The success of the ceramic multilayer package gave Kazuo Inamori confidence in his market cultivation and technological development capabilities. In addition, “It was around this time that the hourly profit system... the prototype for the so-called Amoeba Management system, was created.⁸”

Shimamoto Minoru explained this system:

The hourly profit system calculates the value added per hour per process by subtracting raw materials cost and other expenses from the output and dividing it by the total hours worked. This allowed employees to clearly see the value added, and easily understand how to increase it. The approach of Amoeba Management, on the other hand, was to divide and manage the organization, at the time becoming larger and larger, into smaller units [like amoebas] as if each one was an independent small-to-medium sized company. The number of such amoebas increased every year, totaling two in 1965, eight in 1966, fourteen in 1967, and seventeen in 1968 (according to the 40th Anniversary Company History Compilation Committee of Kyocera Corporation [2000],⁹ p. 63). The income and expense of each amoeba were measured by the hourly profit system. It [the amoeba] split up as needed, and the smaller units competed to increase the efficiency of each. This indeed was a system to simultaneously maintain adaptability to the business environment and sustain organizational efficiency.¹⁰

The “hourly profit system” and “amoeba management” that comprise “a system to simultaneously maintain organizational efficiency and adaptability to the business environment,” became deeply ingrained in the management of Kyoto Ceramic (Kyocera), and served to continuously revitalize the organization. These simple and unique organizational revitalization measures were later utilized in Kazuo Inamori’s restructuring of Japan Airlines (JAL).

An Entrepreneur Who Upholds His Philosophy on Management

Kazuo Inamori is also known as a business leader with a clear management philosophy. Kazuhiro Tanaka, who presents Inamori’s philosophy of management, considers Inamori an entrepreneur who is in the same league as Eiichi Shibusawa and Konosuke Matsushita.¹¹ Tanaka states: “The philosophical goal of Kyocera, as

⁸*Ibid.*, p. 367.

⁹Kyocera Corporation (2000). The 40th anniversary company history compilation committee of Kyocera Corporation. Hateshinai mirai he no chosen: Kyocera kokoro no keiei 40 nen (*Challenge toward an everlasting future: 40 years of Kyocera management from the heart*). Kyoto: Kyocera Corporation.

¹⁰*Op. cit.*, Shimamoto, M. (2005), p. 118.

¹¹Tanaka, K. (2014). Keiei rinen teiji-gata: Shibusawa Eiichi, Matsushita Konosuke, Inamori Kazuo (*Management philosophy proposal style: Eiichi Shibusawa, Konosuke Matsushita and*

formulated by Kazuo Inamori, is ‘to pursue the material and internal happiness of all employees and at the same time contribute to the progress and development of mankind and society.’ To achieve this goal, Inamori’s principles such as “Respect the Divine and Love People,” “Adhere to Universal Principles,” and “Do What’s Right as a Human Being” become the norms to be followed.¹²

According to Tanaka, the following three points should be noted concerning the entrepreneurs who present their philosophy on management.¹³

1. Their management philosophy is derived from their own earnest experience.
2. They have unwavering faith in their management philosophy.
3. They closely connect the “way of management” with the “way of human beings.”

Regarding point (1), Kazuhiro Tanaka says that in Inamori’s case, he had the following background:

Inamori, who originally founded Kyocera in Showa 34 [1959] out of the “desire to put his skills to the test,” was shocked when some of his younger employees soon confronted him with a co-signed letter demanding a guarantee of their future treatment. Inamori spent three days and three nights trying to persuade them and rejecting their demands, but the experience made him realize for the first time that “Running a company is not about realizing your own dreams, but about protecting your employees and their families, now and in the future.” (Inamori 2012¹⁴, p. 40)¹⁵

On point (2) Tanaka states that “Kazuo Inamori has adhered to the ‘principle’ of ‘doing what is right as a human being and pressing on’ as the basis for his managerial decisions. If you oppose this, you will never succeed, and if you adhere to it, at least you will not make a big mistake.¹⁶” Finally, regarding point (3), Tanaka quotes Inamori as saying: “I believe that by pursuing the ideal form of human beings, the foundational pillar on which corporate management should be based will also become clear.¹⁷” Tanaka evaluates him thus: “Inamori is an entrepreneur who aimed to apply the ‘good way of living’ to the ‘good way of managing’.¹⁸”

Inamori’s management philosophy became official within Kyoto Ceramic (Kyocera) as the “Kyocera Philosophy.” In 1984 (Showa 59), Inamori established the Inamori Foundation with a private fortune of 20 billion yen and began awarding the Kyoto Prize, an international award program, among his other charitable activities. The Kyocera Philosophy was thus communicated to a global audience.

Kazuo Inamori). In M. Miyamoto, T. Kagono, & Forum for Entrepreneurial Studies (Eds.), *Kigyoka-gaku no susume (Recommendation of entrepreneurial studies)* (pp. 406–417). Tokyo: Yuhikaku Publishing Co., Ltd.

¹² *Ibid.*, p. 408.

¹³ *Ibid.*, p. 407.

¹⁴ Inamori, K. (2012). *Shinpan keiten aijin: Zero kara no chosen (The new edition of respecting heaven and loving people: Challenging from scratch)*. Kyoto: PHP Institute, Inc.

¹⁵ *Op. cit.*, Tanaka, K. (2014), pp. 409–410.

¹⁶ *Ibid.*, p. 412.

¹⁷ *Op. cit.*, Inamori, K. (2012), p. 21.

¹⁸ *Op. cit.*, Tanaka, K. (2014), p. 414.

Founding of Daini-Denden Inc. (DDI)

Inamori’s entrepreneurial activities continued unabated even after Japan’s economic bubble burst and the country’s economy began to slow down. From 2003 to 2004, the “Weekly Economist” magazine published a series of interviews – “Testimonies on Modern Industrial History” – with business leaders who had achieved exceptional success even during the “Lost Decade of the 1990s.” Inamori appeared as one of the interviewees, discussing the founding of Daini-Denden Inc. (DDI) and its subsequent development into KDDI.¹⁹



Kazuo Inamori (second from right, 2000) at the launch of KDDI (photo provided by Mainichi Shimbun)

In 1985, the privatization of Nippon Telegraph and Telephone Public Corporation (NTT) ushered in the newly liberalized era of Japan’s telecommunication sector, leading to the entry into the business of new firms collectively called New Common Carriers (NCC). The first of such was Daini Denden Kikaku, established in 1984 under the leadership of Inamori, and renamed DDI in 1985. In founding DDI,

¹⁹Gendai-sangyo-shi no shogen (9) Inamori Kazuo Kyosera meiyokaicho: Tsushin jiyuka (jo) senjin wo kitte shin-denden wo hataage (*Testimony on modern industrial history (9): Kazuo Inamori, Kyocera Corporation honorary chairman, on the liberalization of telecommunications, taking the lead in launching new common carriers*), Shukan ekonomisuto (*Weekly Economist*), December 2, 2003, pp. 68–71; and Gendai-sangyo-shi no shogen (10) Inamori Kazuo Kyosera meiyokaicho: Tsushin jiyuka (ge) KDDI tanjo gappei hiwa wo akasu (*Testimony on modern industrial history (10): Kazuo Inamori, Kyocera Corporation honorary chairman, on the liberalization of telecommunications, revealing a secret story behind the consolidation of KDDI*), Shukan ekonomisuto (*Weekly Economist*), December 9, 2003, pp. 48–52.

Inamori teamed up with Sachio Semmoto who had left NTT and pressed for the liberalization of the telecom sector; Inamori also received support from Jiro Ushio of Ushio Electric, Akio Morita of Sony, and Makoto Iida of Secom, who were all in favor of deregulation.

In 2000, DDI merged with KDD, which had inherited the international telegraph and telephone business from the (public) Kokusai Denshin Denwa Co. It also merged with IDO Corp., whose major shareholders included Teleway and Toyota Motor. The resulting organization became [the new] DDI Corp. In 2001, DDI changed its name to KDDI, which still exists today.

I served as an interviewer of Inamori for an interview that appeared in the *Weekly Economist*. As a result, I later had an opportunity to contribute an article to the *Weekly Economist* concerning my impressions.²⁰ Here are its contents:

During the interview with Mr. Kazuo Inamori, I was especially impressed by two points. One was the process of establishing DDI as a “Columbus’ Egg” solution, boldly challenging the Nippon Telegraph and Telephone Public Corporation [predecessor of NTT], and the other was the process of establishing KDDI amidst stiff competition following DDI’s founding.

Regarding establishment of DDI, we must not overlook the fact that the very emergence of DDI itself was an “unexpected” event. When the Nippon Telegraph and Telephone Public Corporation was to be privatized and the telecommunications business liberalized, conventional wisdom assumed that the Japan National Railways, the Japan Highway Public Corporation, and electric power companies, with assets suitable for laying telecommunications lines, would be first to enter the business. However, it did not play out that way. None of them were enthusiastic about the idea. A stalemate emerged as Hisashi Shinto, the president of Nippon Telegraph and Telephone Corporation feared that the privatization might fail through lack of competition. The idea of establishing DDI, proposed by Kyocera’s chief, Inamori, broke the stalemate. Thus, DDI became the “Columbus’ Egg,” and Japan National Railways, the Japan Highway Public Corporation, and the electric power companies finally climbed aboard and entered the telecommunications business. The liberalization of Japan’s telecommunications industry was a “once-in-a-century project,” but it materialized only with the influence of the pioneer Inamori.

Behind Inamori’s establishment of DDI were several circumstances that deserve special mention. These include his encounter with Sachio Semmoto, the support from Jiro Ushio, Akio Morita, Makoto Iida, and others, and the financial strength of Kyocera, giving the company credibility. However, during the interview, I strongly felt that Mr. Inamori’s own pioneering spirit was the essential factor in the birth of DDI. The establishment of DDI would mark a major epoch not only in the deregulation of the telecommunications industry, but also in pursuit of deregulating the whole Japanese economy. The doors of history are often opened not by conventional wisdom but by the unexpected wisdom of a single pioneer.

Regarding the establishment of KDDI, through the interview I was able to understand the “struggle” of DDI. However, it seemed more like a “travail” than a “struggle.” Mr. Inamori spoke dispassionately of a series of interesting facts: obtaining cooperation from Mr. Shinto, president of Nippon Telegraph and Telephone Public Corporation, regarding the laying of microwave lines immediately after the company’s establishment; the failure of the first dedicated telephone line business, as it was unable to exercise buying power such as at

²⁰Kikkawa, T. (2003). Paionia no eidan ga hiraita rekishi no tobira (*The doors of history opened by pioneers’ decisive judgement*). Shukan ekonomisuto (*The Weekly Economist*), December 9, 2003, pp. 50–51.

Japan National Railways; cases in which headhunted managers could not always demonstrate their full potential; internal opposition to the commercialization of the car phone; disagreement between Mr. Inamori and Mr. Semmoto regarding the commercialization of PHS²¹; managing to establish KDDI under the leadership of DDI while paying due consideration to Toyota, to which DDI made concessions regarding the regional division of the car phone business.

Nearly twenty years have passed since the liberalization of Japan's telecommunications business. In recent years, mobile communications centered on hand-held devices have rapidly increased their weight in the telecommunications industry. In the Japanese market, three companies, KDDI, NTT DoCoMo, and Vodafone, are competing fiercely for market share. If KDDI had not existed, Japan's mobile communications business would have been "occupied" by member companies of the NTT Group, the successor of Nippon Telegraph and Telephone Public Corporation, and by foreign companies. If that had happened, the very meaning of telecommunications industry liberalization would have been subject to fundamental review. Actually, however, KDDI exists, and its "au" brand of cell phones still sometimes takes the top spot in the share of monthly new subscribers. Kazuo Inamori encouraged the employees gathered at the launch of DDI and spoke passionately about the company's philosophy to improve service and lower prices by stimulating full-fledged competition between telecommunications companies. This philosophy continues to live on today.

The final sentence, "This philosophy continues to live on today," still holds today (May 2019), more than 15 years after I penned the recollection above.

Restructuring Japan Airlines

In the 2010s, there was yet another event that further raised Inamori's reputation as a manager: successfully rebuilding bankrupt Japan Airlines in a short period of time.

JAL went bankrupt in January 2010 (Heisei 22) due to multiple factors such as its dysfunctional board that remained dependent on the government even after the airline's full privatization and also on a group of parliamentarians close to the transportation lobby; the coexistence of several labor unions and serious labor-management conflicts; and the assumption that "a national flag carrier will never go under." To restructure the company, Inamori was appointed Chairman of the Board in February of that year. He managed the restructuring of the airline with his brilliant leadership. In September 2012, just two years and seven months after the delisting of the airline due to bankruptcy, JAL was successfully relisted on the First Section of the Tokyo Stock Exchange.

After assuming the chairmanship, the first thing he did to rebuild Japan Airlines was to conduct thorough leadership training that included elements of the "Kyocera Philosophy." At first there was strong resistance within JAL, but gradually the "JAL Philosophy," based on its Kyocera counterpart, took root. In particular, the Amoeba Management System of "visualizing" income and expenses for each workplace and facilitating improvements in business performance, demonstrated great effect.

²¹The acronym of Personal Handphone System, indicating the simplified digital telephone system.

Methods such as managing the income and expenses for each aircraft became the norm thereafter.²²

The hourly profit system and amoeba management, mechanisms to simultaneously maintain organizational efficiency and adaptability to the business environment, proved effective even outside the boundaries of Kyocera. The universality of Inamori's management philosophy and management methods became clear to everyone.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



²²See JAL yosogai no seiko de chumoku, Inamori-shi no migiude Morita JAL Tokubetsu komon ga akasu ameba keiei no jissai (*JAL gets attention for its 'unexpected' success: Morita, a special adviser to JAL and the right-hand man of Mr. Inamori, tells about the reality of amoeba management*). Toyokeizai ONLINE (*Toyo Keizai ONLINE*), September 18, 2012; and Imai, Y. (2015). Nihon koku no saiken ni miru keieisha Inamori Kazuo no keiei tetsugaku (*The management philosophy of manager Kazuo Inamori seen in the reconstruction of Japan Airlines*), In Nihon keiei rinri gakkai-shi (*Journal of the Japan Society for Business Ethics*), No. 22.

Case 19 Toshifumi Suzuki: Convenience Store Innovations from Japan to the World



Abstract This chapter introduces Toshifumi Suzuki, leader of 7-Eleven Japan, who brought about innovation in distribution and introduced the franchise system. Suzuki was referred to as the “God of Retail”.

The Dynamism of Japan’s Retail Industry Development

One area seldom emphasized in textbooks of Japanese business history is the distribution industry. The distribution structure contains multiple stages of wholesaling and features a large, even excessive, number of micro retailers, with many of the retail outlets providing the proprietors’ main income source. This structure has been regarded as a product of the “backwardness of Japanese capitalism” and the “lower level of economic development in Japan.”¹

Unlike the disparity in size between large corporations and SMEs, which have undergone changes over the years, these unique characteristics of Japan’s distribution industry remained basically intact even after the high-growth period. This continuity is clearly demonstrated by the continued increase in the number of micro-retailers in Japan through the early 1980s.

However, despite the persistence of the traditional distribution structure that dates back to the prewar period, throughout the era of high economic growth, significant changes did take place in Japan’s distribution industry from the postwar reconstruction years to the latter era. Recent studies have clarified the circumstances under which Japan’s distribution industry managed to maintain its structure despite having undergone major changes.²

¹ See Tamura, M. (1986). *Nihon-gata ryutsu shisutemu (Japanese-style distribution system)*. Tokyo: Chikura Publishing Company.

² For details, see Takaoka, M. (1997). *Sengo fukkoki no Nihon no hyakkaten to itaku shiire Nihonteki torihiki kanko no keisei katei (Japanese department stores in the postwar recovery period and consigned purchase: The formation process of Japanese-style trade practices)*. *Keieishigaku (Japan Business History Review)*, 32(1); Kikkawa, T., & Takaoka, M. (1997). *Sengo Nihon no seikatsu yoshiki no henka to ryutsu heno inakuto (The transformation of postwar*

A significant change that occurred postwar and later in the distribution industry was the major transformation in Japan's consumption patterns, and the emergence and growth of new retail formats that corresponded to this change. The transformation of consumption progressed on two fronts, quantitatively as in a rise in living standards, and qualitatively as seen in westernization of lifestyles.

One of the first new retail formats to grow rapidly in response to change was the department store. Although Mitsukoshi became Japan's first department store with the completion of its new store in 1914 (Taisho 3), the business as a whole did not take off until the late 1920s and 1930s, with a surge in demand for kimono.³ After WWII, Japan's department stores experienced yet another period of rapid growth in the early 1950s, this time riding the wave of popularity in western style fashion and ready-to-wear clothing. The country's first department store law was enacted in 1937 (Showa 12) and the second in 1956 when the government belatedly tried to regulate expansion of the department store business.

A new type of retail business that developed after department stores was the supermarket, emerging during Japan's period of rapid economic growth. Japan's supermarkets grew rapidly in response to westernization of eating habits. Daiei, founded by Isao Nakauchi, opened its first store in Osaka in 1957. By 1972, 15 years after opening, it had surpassed Mitsukoshi in sales, becoming the largest retailer in Japan. The Large-Scale Retail Stores Law (Large Stores Law), enacted in 1973 and revised and strengthened in 1978, was an attempt to regulate supermarkets, which had expanded their operations during the period of high economic growth.

Against the backdrop of the supermarkets' rapid growth, the theory of a "distribution revolution" dominated Japan in the early 1960s, emphasizing the following two points: (1) With the development of supermarkets, the number of small retailers will decrease; and (2) The simultaneous progression of mass production at the production stage and of mass sales at the retail stage (as with the expansion of supermarkets), would eliminate wholesale at the intermediate stage (the so-called elimination of the middlemen).⁴ However, as already noted, the number of micro-retailers continued to increase and wholesalers' business remained vibrant. Why did the "distribution revolution" theory fall short of its predictions? In other words, why did Japan's traditional distribution structure remain intact despite the growth of department stores and supermarkets? There are two reasons:

Japan's lifestyle and an impact on distribution). In *The University of Tokyo, Shakaikagaku kenkyu (Journal of Social Science)*, 48(5); and Takaoka, M. (1999a). *Kodo keizai seichoki no supamaketto no shigen hokan mekanizumu: Nihon no ryutsu kakumei no jitsuzo (The resource supplementation mechanisms of supermarkets in the rapid economic growth period: The reality of Japan's distribution revolution)*. In *Shakai keizai shigaku (Socio-Economic History)*, 65(1).

³Suzuki, Y. (1980). *Showa-shoki no kourisho mondai: Hyakkaten to chusho shoten no kakuchiku (The question of retailers in the early Showa period: Competition between department stores and medium and small-sized stores)*. Tokyo: Nikkei Publishing Inc.

⁴See Hayashi, S. (1962). *Ryutsu kakumei: Seihin keiro oyobi shohisha (Distribution revolution: Product sales channel and consumer)*. Tokyo: Chuokoron-shinsha. Inc.

The first is that even after the period of high economic growth, the percentage of fresh food consumption remained high in Japan, even as westernization of eating habits continued. Until the high-growth period, Japanese supermarkets were unable to develop a pre-packaging system for fresh produce and thus didn't succeed in selling them in a self-service format in the aisles (the typical supermarket style we are familiar with today). This left room for small-scale food retailers such as greengrocers, fishmongers, and butchers, who made up a large portion of the micro-retailers, to continue increasing their numbers.

Second, through their relationships with wholesalers, department stores and supermarkets in Japan compensated for the lack of managerial resources necessary for growth. During the postwar reconstruction period, department stores lacked sufficient staff to properly stock and sell the new lines of clothing, especially ready-to-wear garments. Emerging clothing wholesalers such as Kashiyama Company (currently Onward Kashiyama), led by Junzo Kashiyama, made up for this lack of capacity by dispatching temporary clerks to the sales floors. In addition, during the high-growth period, supermarkets were plagued by a lack of funds needed for chain operations (an essential requirement for selling low-cost, processed food items).⁵ Of great significance in supplementing this shortfall was the turnover difference funds⁶ that wholesalers, such as those handling food items, effectively provided to supermarkets. Contrary to the forecast by "distribution revolution" theory, Japanese supermarkets during the high-growth era did not adopt a policy of eliminating wholesalers. Thus wholesalers remained active even after the high growth period as department stores and supermarkets, the standard-bearers of the new retail format, actively incorporated wholesalers in their operations.

During Japan's period of stable growth after the oil crisis, a new retail format gained traction, differing from department stores and supermarkets: the convenience stores (konbini). Japan's first convenience store opened in 1969, and by 2002, the total number of convenience stores nationwide had reached 41,770.⁷

Japan's convenience store business started with the US stores as a model, but soon achieved its own systemic innovations that eventually became a model for their U.S. counterparts.⁸ Systemic innovations covered a wide scope in areas such as retail

⁵The expression "chain operation" refers to the management of numerous stores, achieving economies of scale by functionally separating sales operations for greater efficiency.

⁶The expression "turnover difference funds" refers to the surplus funds owned by supermarkets when the period before the payment to wholesalers is longer than the period of cash sales to the consumers.

⁷The Research and Statistical Department, the Economic and Industrial Policy Bureau, the Ministry of Economy, Trade and Industry (2005). 2005 wagakuni no shogyo: Aratana hatten wo mezashi kawariyuku shogyo (*Our country's commerce in 2005: Changing commerce for new development*). The Ministry of Economy, Trade and Industry.

⁸For the development of the convenience stores in Japan, see Kawabe, N. (1994). *Sebun-erebun no keieishi: Nichibeiki kigyo keieiryoku no gyakuten (The business history of Seven Eleven: Reversal of Management Power of Japan and the United States)*. Tokyo: Yuhikaku Publishing Co., Ltd.; and Yahagi, T. (1994). *Konbiniensu sutoa sisutemu no kakushinsei (The innovativeness of the*

operations (high-mix, low-volume inventory sales; 24/7 operations); product supply (“short lead time and small lot”; integration of production and sales; joint product development); and organizational structure (information network; strategic alliance; franchise system). The growth of Japanese convenience store companies was remarkable because they adopted a regionally concentrated, multiple store deployment strategy in which companies competed with each other to realize economies of scale in information networks and distribution. Because Japanese convenience store companies did not have the “location-related” resources and funds necessary to carry out their Dominant Strategy on their own, they actively utilized the franchise system to compensate for the lack of resources.

7-Eleven Japan, led by Toshifumi Suzuki, the leading company in Japan’s convenience store industry, has led a series of systemic innovations. In 1990, 7-Eleven Japan embarked on a bailout of its U.S. parent company, Southland Corporation, which had fallen into a managerial crisis. In addition, in 1993, 7-Eleven Japan’s ordinary profit surpassed that of its Japanese parent company, Ito-Yokado. Thus 7-Eleven Japan scored “double upset wins” over its parents.

Brief Biography of Toshifumi Suzuki

Toshifumi Suzuki spearheaded the creation of the innovative Japanese convenience store system. A salaried manager with a university degree who rose on the corporate ladder, Suzuki was neither a venture capitalist like Kazuo Inamori or Masayoshi Son, nor an owner-manager like Tadashi Yanai. However, like them, he created a business model that became a global success.

Suzuki was born in 1932 (Showa 7) in Sakaki-machi, Hanishina County, Nagano Prefecture. After graduating from Chuo University with a degree in economics, he worked for Tokyo Publishing and Sale (now Tohan) before joining Ito-Yokado in 1963 and becoming a director in 1971.

In 1973, the company formed a partnership with Southland Corporation, a U.-S. company that operated 7-Eleven convenience stores, to establish York-Seven Co. Suzuki was appointed an executive director of York-Seven.

The following year, Japan’s first 7-Eleven store opened in Koto Ward, Tokyo. In 1975, 7-Eleven’s 24/7 operations began in Koriyama City, Fukushima Prefecture.

In 1978, York-Seven changed its name to 7-Eleven Japan, with Suzuki assuming the post of president. In 1991, 7-Eleven Japan acquired the management rights of the U.S. Southland Corporation through a bailout. The following year, Suzuki became president of Ito-Yokado also, and in 2003 he became chairman and CEO of Ito-Yokado and CEO of 7-Eleven Japan. When Seven & i Holdings was established in 2005, Suzuki became its chairman and CEO.

convenience store system). Tokyo: Nikkei Publishing Inc. The following description is based on these studies unless otherwise noted.

In 2016, after the board of Seven & i Holdings rejected his proposal to remove the then president of 7-Eleven Japan, Ryuichi Isaka, Suzuki announced his retirement from active duty. He then became an honorary advisor to Seven & i Holdings.

Suzuki's Convenience Store Deployment Strategy

Toshifumi Suzuki was called the “God of Retail” for establishing the innovative convenience store system. In 1969 (Showa 44) the very first convenience store in Japan, “My Shop Toyonaka,” opened in Osaka. After that, convenience stores made rapid progress and became indispensable in the daily lives of the Japanese. Convenience stores replaced department stores and supermarkets, becoming the “third protagonist of retail” in postwar Japan.

Mika Takaoka explains the reason for this development:

One factor explaining the rapid growth of convenience stores was the change in consumer behavior referred to as the “instantization of consumption” (Yahagi 1994,⁹ pp. 58–63), to which existing retailers were unable to adequately respond. By thoroughly pursuing convenience, which consists of three elements – ‘nearby’ (location), ‘anytime’ (hours), and ‘availability of daily necessities’ (product lineup) – convenience stores have effectively responded to new consumer demands during a period of stable growth.¹⁰

Takaoka went on to note that the development of convenience stores in Japan had the following two characteristics:

The first was the extremely rapid pace of convenience store deployment. In the case of Daiei, Japan's largest supermarket chain at the time, with 223 stores as of 1998, the number of stores had risen 2.06-fold in the 20 years since 1973 (108 stores in that year). By contrast, 7-Eleven Japan, Japan's largest convenience store company with 7,001 stores as of 1997, increased its store count 18.67-fold in the 20 years after 1977 (375 stores in 1977). The comparison between the two companies illustrates the speed of convenience store development in comparison to that of supermarkets.

Second, convenience store deployment brought a marked concentration of stores in specific regions. This method of store deployment is called the “Dominant Strategy.” A comparison of Daiei and 7-Eleven Japan shows that Daiei stores existed in 35 prefectures in 1993, while 7-Eleven Japan stores were present in only 25 prefectures in 1997.¹¹

⁹*Op. cit.*, Yahagi, T. (1994).

¹⁰Takaoka, M. (2004). *Gendai no ryutsu kigyo to kigyokan kankei (Modern distribution companies and inter-company relations)*. In M. Kamekawa, M. Takaoka, & N. Yamanaka, (Eds.). *Nyumon gendai kigyo-ron (An introduction to modern company theory)*. (p. 309). Tokyo: SHINSEI-SHA Co., Ltd.

¹¹*Ibid.*, pp. 310–311.

Toshifumi Suzuki, who was chairman of 7-Eleven Japan as of 2003, explained why 7-Eleven Japan stayed with the Dominant Strategy.

The reason for using the Dominant [Strategy] is that, when delivering products, transportation efficiency is higher when stores are concentrated in one area. Not only that, it also allows for speedy deliveries, so fresh products can be delivered. It also enables a single food factory to deliver to multiple stores, increasing the productivity of the factory. From the supply side, delivering products to stores, the Dominant [Strategy] is advantageous. We are now delivering boxed lunches to stores three times a day, and this is possible because the distance between stores is short and delivery costs are low, thanks to Dominant Strategy. From the customer's point of view, 7-Eleven's presence is literally "convenience," whether they look to the right or to the left. In this sense, the Dominant Strategy is crucial for the retail industry.¹²

Introduction of the Franchise System

The innovative convenience store system established by Toshifumi Suzuki was also characterized by its active introduction of the franchise system. The franchise system is defined as "a system in which the franchisor (the company offering the license, or the headquarters) grants the franchisee (the company receiving the license, or participating retailers) the right and license to conduct business activities using the trade name, trademark and other resources in return for a certain amount of compensation. It is also a continuous relationship that provides subsidies for organizational development, education and training, merchandising, and business management".¹³

In contrast to the dominance of directly run stores in the United States, the birthplace of convenience stores, the franchise system has spread widely among convenience stores in Japan. Mika Takaoka explains the reason:

Japanese convenience store companies adopted the franchise system because (a) in order to deploy the Dominant Strategy, it was necessary to open many stores in a certain area, and convenience store companies did not have the managerial resources (i.e., funds to purchase land and buildings for stores) to achieve this. It was also important that (b) in the case of a franchise system, the franchisee has a sense of running "my own store," which increases the incentive for the business and raises the quality of consumer service compared with stores operated by [parent] company employees.... (a) is consistent with the "theory of constraints" and (b) with the "incentive theory of motivation".¹⁴

¹²Gendai sangyo-shi no shogen (2) konbini tojo (chu) Suzuki Toshifumi seibun irebun Japan kaicho intabyu (*Testimony on modern industrial history: (2) The advent of convenience stores, an interview with Toshifumi Suzuki, Seven Eleven Japan Chairman*), Shukan ekonomisuto (*Weekly Economist*), October 14, 2003, pp. 41–42.

¹³The Distribution Economics Institute of Japan (Eds.) (1972). *Konbiniensu sutoa manyuaru (Convenience store manual)*. (p.17). Small and Medium-Sized Enterprises Agency, Corporate Bureau, the Ministry of International Trade and Industry (supervised). Small and Medium-Sized Enterprises Agency.

¹⁴*Op. cit.*, Takaoka, M. (2004), p. 313.

In light of this commentary, the theory of constraints held true in the early stage of development when Japanese convenience companies (franchisors) lacked sufficient managerial resources. However, the franchise system continued to take hold in Japan even after convenience store companies grew and were freed from resource constraints, arguably because the circumstances highlighted by the incentive theory of motivation remained.

Product-by-Product Merchandise Management and “Hypothesis-Testing Ordering”

The distribution innovations led by Toshifumi Suzuki were put into practice not only at 7-Eleven convenience stores but also at Ito-Yokado supermarkets. One element of the distribution innovations was the practice of “hypothesis-testing ordering” for product-by-product managing of merchandise.

A common feature of two of the world’s largest retailers, U.S. Wal-Mart and 7-Eleven Japan, is their introduction of POS (Point of Sales) systems in the early 1980s. They are also similar in having established competitive advantage by combining their information, distribution, and product procurement strategy to implement their own distinct SCM (Supply Chain Management) systems earlier than their competitors. However, some differences in their approaches could be described as stark contrasts.

Mika Takaoka and Mihwa Lee compared Wal-Mart and Ito-Yokado, as they are of similar business types, and noted “Wal-Mart’s low SG&A (selling, general, and administrative expenses) ratio and Ito-Yokado’s high gross margin”.¹⁵ According to Takaoka and Lee:

Japanese labor costs, including those of part-time workers are relatively high, and land and rent are relatively expensive, even though land prices have declined since the collapse of the economic bubble. This has undoubtedly kept Ito-Yokado’s SG&A ratio high. However, this alone does not explain Wal-Mart’s low SG&A ratio. Basically, this low level should be viewed as a reflection of Wal-Mart’s SCM focus on overhead cost reduction. On the other hand, Ito-Yokado is able to maintain a high gross profit margin (that is, it is able to set relatively high selling prices) because, as in the case of 7-Eleven Japan, it properly manages merchandise by-product at its stores and makes available a product lineup that is responsive to the needs of customers. When determining its product lineups, Ito-Yokado and 7-Eleven Japan focused on “hypothesis-testing ordering,” which is different from “automatic ordering,” and this factor contributed to high gross profit margins.¹⁶

¹⁵Takaoka, M., & Lee, M. (2008). Sapuraichen keiei no shinka ni okeru kyotsusei to taishosei, kourigyo: worumato to seibun ando ai (*Commonality and contrasts in the evolution of supply chain management—retail business: Walmart and Seven & i*). In H. Shiomi, & T. Kikkawa (Eds.), *Nihon kigyo no gurobaru kyoso senryaku: Nyuekonomii to ushinawareta junen no saikensho (Japanese companies’ global competition strategy: A reexamination of new economy and the “Lost Decade”)* (p. 258). Nagoya: Nagoya University Press.

¹⁶*Ibid.*, pp. 258–259.

In other words, while Wal-Mart focused on lowering SG&A costs in SCM by utilizing information obtained from POS systems and other sources, Ito-Yokado and 7-Eleven Japan combined the information with hypothesis-testing ordering, rather than automated ordering, to achieve high gross profit margins.

Susumu Ogawa explains why 7-Eleven Japan chose to use hypothesis-testing ordering instead of automated ordering:

Product-by-product merchandise management would be meaningless if it were just to obtain sales information for each individual item. Only by utilizing the information on individual items in the process of ordering, is product-by-product merchandise management fully accomplished. In fact, in the convenience store industry, after digitizing order history and sales information, there are two ways to utilize the data for order placement. One is termed automated ordering, and the other is termed hypothesis-testing ordering.

In automated ordering, sales information gathered through digital devices is calculated by computer using formulas pre-determined by corporate headquarters, and the computation results are given to stores. The stores are informed of the quantity of items that they should order.... The advantage of this automated ordering is that the person in charge of ordering does not need much skill.... This is helpful for convenience stores, where part-time employees and temporary workers are the main labor force.

But 7-Eleven Japan did not adopt automated ordering. Its thinking was that in automated ordering, the order quantity is basically recommended by corporate headquarters.... Under such a system, wouldn't the person in charge of placing orders stop thinking about what kind of products are in demand at his or her store?... The store clerks would lose interest in which products are selling, and as a result, wouldn't they become insensitive to changes in market trends?...

Thus, the company devised the hypothesis-testing ordering method. Placing orders based on the hypothesis-testing model is like automated ordering: sales history and results are saved as digital information and the information is used for ordering. However, hypothesis-testing differs decisively from automated ordering in that a person in charge of ordering at a store, rather than corporate headquarter computers, analyzes the data and determines the order quantity.¹⁷

7-Eleven Japan differed not only from Walmart but also from Japanese competitors in that it adopted hypothesis-testing ordering instead of automated ordering. As we have seen, Toshifumi Suzuki achieved numerous distribution innovations and was called the “god of retail.” Although the convenience store was originally born in the United States, Suzuki refined it into an innovative convenience store system which then spread from Japan to the rest of the world. Suzuki may have been disappointed that he retired from active duty in 2016, but there is no doubt his accomplishments will continue to shine brilliantly into the future.

¹⁷Ogawa, S. (2000). *Dimando chen keiei: Ryutsugyo no shin bijinesumoderu (Demand chain management: New business model of the distribution industry)* (pp. 80–82). Tokyo: Nikkei Publishing Inc.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Case 20 Tadashi Yanai and Masayoshi Son: Exceptional Challenges Undertaken by the Two Risk Takers



Abstract This chapter introduces Tadashi Yanai, founder of Uniqlo, and Masayoshi Son, founder of the Softbank Group. Both entrepreneurs took on significant risk and investment to successfully expand their businesses in Japan and overseas.

Tadashi Yanai Before 2003

Tadashi Yanai and Masayoshi Son became the most successful entrepreneurs in Japan after the economic bubble burst in the early 1990s. The two men are close friends. As of May 2019, Yanai served as an external board member of Softbank, the company founded by Son.

Tadashi Yanai was born in Ube City, Yamaguchi Prefecture in 1949 (Showa 24).¹ After graduating from the School of Political Science and Economics, Waseda University, he joined Ogori Shoji in 1972. The company was established 9 years earlier (in 1963) by his father, Hitoshi Yanai. In 1984, Tadashi Yanai replaced his father as president of Ogori Shoji and started opening stores named Uniqlo, which meant “unique clothing.” The first Uniqlo store opened in Hiroshima City in 1984² and the first “roadside store,” located along major roads, with a large parking space opened in Shimonoseki City in 1985, becoming the prototype for later Uniqlo stores.³

Tadashi Yanai’s business began to grow around the time he rebranded his company from Ogori Shoji to Fast Retailing in 1991. The company listed on the Hiroshima Stock Exchange in 1994 and on the Second Section of the Tokyo Stock Exchange in 1997. In 1998, the “Uniqlo fleece” with a price tag of 1900 yen became a big hit. In the same year, the Uniqlo Harajuku store opened in Shibuya Ward, Tokyo, the first outlet in the urban center of the Tokyo metropolitan area. The

¹The following description of Tadashi Yanai and Fast Retailing is primarily based on Fast Retailing’s website, *About Us*: <https://www.fastretailing.com/jp/about/>.

²Uniqlo Fukuromachi Store closed in 1991.

³Uniqlo Yamanota Store closed in 1991.

following year, Fast Retailing was listed on the First Section of the Tokyo Stock Exchange.

Tadashi Yanai opened Fast Retailing's Shanghai office in 1999 to better manage production in China. In 2002, Uniqlo opened a store in Shanghai and began marketing operations in addition to production in China. Uniqlo's very first overseas foray had been a year earlier in 2001 when it opened a store in London. In 2003, Uniqlo's cashmere campaign drew much public attention.

Uniqlo Kicks Off the “Made in China” Era

Tadashi Yanai's business made a great leap with its hugely popular line of fleece products, but the biggest contributor to this success was the establishment of a production system in China. Yasuhiko Hasegawa played a key role in this process, leaving Toray International in 1994 to establish Personal Care Systems Co. and becoming its president.

In a 2016 interview article, Hasegawa looked back at 1994 and described the circumstances in which he served as the bridge between Tadashi Yanai of Fast Retailing and several Chinese factories.

In Japanese business practice, the establishment of a relationship between two parties is solely on a company-to-company basis. The fact that I had worked for Toray meant little, and few would listen to me since I was no longer associated with a major company. The only person who said, “That’s interesting – Let’s do it” was Tadashi Yanai of Uniqlo.⁴

After quoting Hasegawa, the article continues as follows:

Immediately, Hasegawa started negotiating with factories that showed a willingness to take on production for a Japanese company. Sewing factories and fabric makers that had been producing clothing items for leading American apparel brands agreed to payment at the “Uniqlo price” on the condition that their relationship would be long term....

The following year, in 1995, Uniqlo began production at Chinese factories owned by a Hong Kong company that was already doing small-scale work for European and U.-S. companies, and this prompted the company's rapid advance.... After that, Hasegawa appointed himself as the “Uniqlo Preacher” (i.e., Uniqlo evangelist) and went on to cultivate a network of production factories in China.

Hasegawa recalled, “I told them, ‘I don’t need anything in return, but please take a chance on Uniqlo as Yanai is a trustworthy man,’ and completed the deals. To Yanai, I said, ‘The group of companies I would like to introduce to you have been spearheading casual wear production in Hong Kong for Europe and the United States and are deeply versed in

⁴*HQ* (web magazine of Hitotsubashi University) (2016). PEOPLE miryoku aru sotsugyosei: Uniqlo no chugoku seisan taisei wo kodineto shi yakushin wo sasaeta sono keiken wo ikashi gurobaru jinzai wo ikusei, kabushikigaisha pasonarukeasisutemuzu daihyotorishimariyakushacho Hasegawa Yasuhiko (*PEOPLE an attractive alumna who coordinated Uniqlo's production system in China and supported its remarkable progress. Yasuhiko Hasegawa, President and CEO of Personal Care Systems Co., Ltd., who used that experience to develop global human resources*), Vol. 51. <https://www.hit-u.ac.jp/hq-mag/archive/pdf/hq51.pdf>.

fashion. They are especially strong on American casual wear, and their products are among the best in the world in terms of quality and comfort.’ I made such presentations to Yanai and asked him to allow me to work toward the successful alliance.”

Thus, Uniqlo was able to obtain a high-quality, yet overwhelmingly cost-effective production base by partnering with a group of top-notch factories that Hasegawa had cultivated. Starting with around a \$1 million investment, Uniqlo expanded its operation, generating a major boom through the release of fleece clothing in 1999. In the same year, Uniqlo opened its first overseas office in Shanghai to handle production management. The company had established a full-scale production system.⁵

The interview concludes with the following statement by Hasegawa:

When we first met, Uniqlo was a company with annual sales of about 25 billion yen, but it quickly grew to 100 billion yen and then to 200 billion yen. Mr. Yanai is a man who truly keeps doing his best every day. That is why he was able to realize this level of success in his own lifetime. The Chinese people to whom I have introduced Mr. Yanai have all come to admire him greatly.⁶

Parenthetically, in the series “Testimonies on Modern Industrial History” published by the “Weekly Economist” magazine from 2003 to 2004, Tadashi Yanai was among the interviewees that included such names as Kazuo Inamori and Toshifumi Suzuki.⁷ I was one of those interviewing Yanai. Here are my impressions of the interview that I later contributed to the same magazine.⁸

The recent influx of Chinese products in Japan is often referred to as a “threat” that will lead to the “hollowing out” of Japanese industry. It is true that Japan-China trade has seen a significant surplus of Japanese imports in recent years. However, when the Japan-China trade balance is recalculated taking into account the export surplus from Japan to Hong Kong, it is clear that with the exception of FY2001, Japanese exports to China have remained in surplus even in recent years. The reality of late is that the “triangular trade” between Japan, Hong Kong, and China has been taking root: Japan is exporting high-value components to China via Hong Kong, assembly is taking place in China, and Japan is importing back the finished goods.

In other words, the influx of Chinese products in the Japanese market reflects the deepening division of labor between the two countries rather than the hollowing out of Japanese industry. Japanese consumers are benefiting from the trend, so the “made-in-China era” can be welcomed.

⁵ *Ibid.*

⁶ *Ibid.*

⁷ See Gendai-sangyo-shi no shogen (20) Yanai Tadashi fasuto riteiringu kaicho: Meido in chaina no shogeki ‘boku no shobai no sensei ha Honkon no hito’ (*Testimony on modern industrial history (20): Tadashi Yanai, Chairman of Fast Retailing—The impact of made in China, ‘my business teacher is a person in Hong Kong’*), Shukan ekonomisuto (*Weekly Economist*), February 24, 2004, pp. 50–53; Gendai-sangyo-shi no shogen (21) Yanai Tadashi fasuto riteiringu kaicho: Meido in chaina no shogeki, chugoku de seisan kanri ni seikoshita riyu wo kataru (*Testimony on modern industrial history (21): Tadashi Yanai, Chairman of Fast Retailing—The impact of made in China, telling the reason why he succeeded in production control in China*). Shukan ekonomisuto (*Weekly Economist*), March 2, 2004, pp. 42–46.

⁸ Kikkawa, T. (2004c, March 2). Kokusai bungyo no shinka wo shochosuru Uniqlo seihin (*Uniqlo products symbolize the deepening of the international division of labor*). Shukan ekonomisuto (*Weekly Economist*), pp. 44–45.

The Made in China era in the Japanese market began with the Uniqlo brand of clothing products launched by Fast Retailing led by Yanai (hereafter Fast Retailing is referred to as Uniqlo). Uniqlo dispelled the “cheap and bad” image associated with Chinese products and went on to instill in consumers’ minds a sense of trust that Chinese products are “cheap and good.” What emerged clearly through the interview with Yanai was his progressive business model that initiated the Made in China era.

Uniqlo describes its business model as “a manufacturing retailer that provides high-quality, low-priced casual wear brands through comprehensive in-house control over planning, production, distribution, and sales.” At first glance, this business model appears to be no different from the SPA model (SPA stands for Specialty store retailer of Private label Apparel) adopted by others. However, Uniqlo stands out in its active involvement in the production process in China and has literally accomplished “comprehensive in-house control” with the following aspects: (1) it actively recruited Chinese students and trained them to assume important roles before assigning them to production management; (2) it directly interviewed young managers at China’s emerging township and village enterprises (TVEs) and chose suppliers; (3) it selected factories based not only on their size and facilities but also on their managers’ attention to quality control and contract fulfillment; (4) after placing orders to about 140 factories, it pared down the number based on their performance before continuing business relations; (5) Uniqlo focused on becoming the main customer for these factories so that they would handle urgent orders; and (6) for the selected factories, Uniqlo adhered to a long-term vision and expected factories to learn from failure rather than take a short term view and end the relationship. Through these measures, Uniqlo achieved “comprehensive in-house control” over production, and transformed the Japanese consumers’ image of Chinese products.

After the boom generated by the fleece line of products launched in 1999 died down, Uniqlo faced harsh commentary. However, if we look at Uniqlo’s development over a longer period and consider the fleece boom as transitory, we see that Uniqlo has grown steadily, both in terms of sales and profits, and continues to grow. Perhaps the most important factor in the success is Yanai’s character as a “manager resilient to failure.” The title of a recently published book by Yanai is “One Win, Nine Defeats.”⁹ In an interview, he emphasized that making a mistake with a relaxed mindset helps keep the venture spirit alive. Uniqlo has been able to achieve long-term growth without losing the venture spirit precisely because it has a leader capable of dealing constructively with failures.

Yanai’s “resilience to failure” means that he is also “good at exiting.” For example, Fast Retailing launched a food business in 2002 under the brand name “SKIP,” but withdrew 2 years later. One who is good at withdrawing can also launch a sharp offense. Yanai’s risk-taking skill seems to be rooted in his resilience against failure.

Tadashi Yanai Since 2004

After 2004, Yanai continued to rapidly expand his business while making swift withdrawals as needed. First, the company accelerated its expansion overseas, establishing the “Uniqlo Design Studio, New York, Inc.” in the United States in

⁹Yanai, T. (2003). *Issho kyuhai (One win, nine defeats)*. Tokyo: SHINCHOSHA Publishing Co., Ltd.

Table 1 Uniqlo's foreign store development since 2005

2005	First South Korean store in Seoul; first U.S. store in New Jersey (closed in 2006)
2006	First global flagship store in SoHo, New York
2007	Global flagship store on Oxford Street in London; first major store in South Korea in the Myeongdong district of Seoul; first French store on the outskirts of Paris, La Défense
2009	First Singaporean store in Tampines One; global flagship store near Opéra, Paris
2010	First Russian store in Moscow; global flagship store on Nanjing Xi Lu, Shanghai; first Taiwanese store in Taipei; first Malaysian store in Kuala Lumpur
2011	First Thai store in Bangkok; global flagship stores in Ming Yang Department Store, Taipei; 5th Avenue, New York; and in Myeongdong district, Seoul
2012	First Filipino store in Manila; first U.S. west coast store in San Francisco
2013	First Indonesian store in Jakarta; Grameen Uniqlo opens first two stores simultaneously in the city of Dhaka, Bangladesh; global flagship store in Shanghai
2014	First Australian store in Melbourne; first German store in Berlin (which also serves as a global flagship store)
2015	First Belgian store in Antwerp; global flagship store on Michigan Avenue, Chicago
2016	Global flagship store in Orchard Central, Singapore; first Canadian store in Toronto
2017	First Spanish store in Barcelona
2018	First Swedish store in Stockholm; first Dutch store in Amsterdam; global flagship store in Manila
2019	First Danish store in Copenhagen

2004, which later became an R&D center. That same year, FRL Korea Co. was established as a joint venture with Lotte Shopping of South Korea to carry out Uniqlo operations in the country. Then in 2005, the company acquired Aspesi Japan, the sales subsidiary of the Italian clothing brand Aspesi. However, Uniqlo withdrew from the [Aspesi] business in 2008.

Uniqlo also successively opened overseas stores as indicated in the following Table 1.

Second, Fast Retailing also expanded significantly in Japan, first opening large-scale stores in Shinsaibashi (Osaka) in 2004 (becoming a global flagship store 2010), Ginza in 2005, Kobe Harborland in 2007, and in Ikebukuro's Tobu department store in 2011. It also opened a series of global flagship stores in Japan (beyond the Shinsaibashi store in Osaka as noted above): the Ginza store in 2012; the Lee Theater store (Kichijoji, Tokyo) in 2013; and "Uniqlo Osaka" in 2014. In addition, global hotspot stores opened, such as: the BICQLO Shinjuku Station East Exit store in 2012; the Ikebukuro Sunshine 60 Dori, Okachimachi Store and Kichijoji Store in 2014.

Third, Uniqlo diversified its businesses, opening a women's innerwear specialty store in Ginza in 2005 (closed in 2009) and a children's and baby specialty store, Uniqlo Kids (closed in 2009). In 2007, Uniqlo opened a T-shirt specialty store, UTSTORE HARAJUKU, in Harajuku, Tokyo. In 2017, Uniqlo refreshed and relaunched its Japanese online store.

In 2006, Fast Retailing established the g.u. brand (now spelled G.U. or GU) that operates the eponymous store specializing in low-priced casual wear. It opened the

first g.u. flagship store in Shinsaibashi in 2010 (and a Ginza store in 2012). It also expanded overseas, in Shanghai in 2013, Taiwan in 2014, Hong Kong in 2017, and South Korea in 2018.

Also in 2006, Fast Retailing formed a business alliance with Toray Industries with the aim of creating a “strategic partnership.” In 2007 the alliance began working on the HEATTECH campaign that became a great success.

Thus, Fast Retailing’s business continues to grow. Clearly, the largest factor in the success has been Yanai’s skillful risk-taking and growth-oriented investments.

Masayoshi Son Before 2006

Among the works of business historians analyzing Masayoshi Son’s entrepreneurial activities, Hiroaki Yamazaki’s article published in 2007 is especially insightful.¹⁰ The following discussion of Son’s activity through 2006 is based on that article.

Masayoshi Son was born in 1957 (Showa 32) in Tosu City, Saga Prefecture, the second son of an ethnic Korean family in Japan. He entered Kurume University Senior High School, one of the leading high schools in the area, but dropped out after being fascinated by the atmosphere of the U.S. west coast which he visited for a summer language study program during his first year in high school. After moving to the U.S., Son passed the required high school graduation exam and completed 2 years of college before transferring to the Department of Economics at the University of California, Berkeley in 1977.

While at Berkeley, Son engaged in several profitable businesses, which included development of a voice-activated electronic translator and installations of Space Invaders game machines around campus. In 1981, a year after graduating from Berkeley and returning to Japan, he founded Japan Softbank, a PC software wholesaler in Onojo City, Fukuoka Prefecture, with capital of 10 million yen. Hiroaki Yamazaki discusses Masayoshi Son’s business activities from that time through 2006, dividing them into the following three phases:¹¹

1. The foundational period from the establishment of Japan Softbank through FY1993.
2. The period of active mergers and acquisitions between FY1994 and 1999.
3. A period of transition “from an Internet conglomerate to comprehensive telecom operator” between FY2000 and 2006.

¹⁰ Yamazaki, H. (2007). Hokoku 3: Son Masayoshi (Sofutobanku) no kigyoka katsudo (*Report 3: The entrepreneurial activity of Masayoshi Son (Softbank)*). In Kyotsurondai: M&A, TOB nadono hairisuku bunya de katsuyakushita kigyoka gunzo no jitsuzo to kyozo, Okabe Hiroshi, Shima Tokuzo kara Son Masayoshi made (Common subject: The real and false Images of entrepreneurs who performed well in high-risk areas, such as M&A and TOB—From Hiroshi Okabe and Tokuzo Shima to Masayoshi Son), *Kigyoka kenkyu daiyongo (Entrepreneurial studies)*, No. 4, pp. 96–108.

¹¹ *Ibid.*, pp. 97–107.

In the foundational phase, shortly after establishment, Japan Softbank moved to Tokyo and signed exclusive contracts with Joshin Denki, the operator of Japan's largest PC store, and with Hudson, the largest software developer in Japan. By signing exclusive deals with the top companies, both at the entry and exit points of computer software distribution, Japan SoftBank was able to secure an overwhelmingly dominant position in this field.¹²

Masayoshi Son ran into financial difficulties stemming from these deals but he overcame the crisis with a loan from the Kojimachi branch of the Dai-Ichi Kangyo Bank. The loan was made possible by the mediation of Tadashi Sasaki, a senior managing director at Sharp, whom Son met through the development of a voice-activated electronic translator.

In 1982 (Showa 57), Japan Softbank started a publishing business, with the launch of a special interest magazine that showcased PCs and software by each manufacturer. "Thus, the business of Japan Softbank began to develop based on two pillars: the wholesale of PC software and the publication of the model-specific PC magazine."¹³

In 1989 (Heisei 1), Masayoshi Son met David A. Norman, then chairman of Businessland, a rapidly growing U.S. company in the field of network equipment, and established Businessland Japan Co. The following year, through an introduction by Norman, Son met with Raymond Noorda, president of Novell. Novell had developed an OS¹⁴ called Netware for local area networks¹⁵ and held a 65% market share in the United States. With the cooperation of Fujitsu, Toshiba, Canon, Sony, and NEC, Son established the Japanese branch of Novell. "Thus, in the new field of network business, Son enlisted the cooperation of leading Japanese PC makers to encourage America's most prominent network operator to enter the Japanese market. As a result, Japan SoftBank succeeded in swiftly securing a dominant position in this field."¹⁶ Based on this success, as the company aimed for global expansion, Japan Softbank changed its name to Softbank Corp in 1990.

Phase 2 commenced in 1994 as SoftBank made its stock available on the over-the-counter market. Having raised a large amount of capital, Masayoshi Son pursued an active M&A strategy, acquiring Interop in 1994, the exhibition division of Ziff-Davis Publishing, at that time the top U.S. computer magazine publisher. In 1995, Son acquired Comdex and Ziff-Davis Publishing, the top two companies in the exhibition industry. A year later, he acquired Kingston Technology, a leading manufacturer of computer memory boards.

¹² *Ibid.*, p. 97.

¹³ *Ibid.*, p. 98.

¹⁴ Operation System, the system software to manage computer control and operation.

¹⁵ Local Area Network, a network within a limited area.

¹⁶ *Op. cit.*, Yamazaki, H. (2007), p. 98.

Thus, large, flashy M&A deals were completed, but all of them were then sold off in a short period of time, so one has to say these deals as a whole ended in a failure, but during this process, Son acquired a ‘golden egg’, which was Yahoo.¹⁷

Yahoo Inc. was an Internet information search company established in the U.S. in 1995. Son immediately decided to invest in Yahoo after hearing about the company from Eric Hippeau of Ziff-Davis Publishing. When Yahoo entered the Japanese market in 1996, Son took control of a 60% stake in the newly established Yahoo Japan.

SoftBank, which went public on the First Section of the Tokyo Stock Exchange (TSE) in 1998, established NASDAQ Japan Planning in the same year as a 50–50 joint venture with the National Association of Securities Dealers (NASD) of the United States. “This was an attempt to support venture businesses in line with the trend of fostering IT ventures, which had been going on in parallel with the surge of IT-related stock¹⁸ since FY1998. The company formed a business alliance with the Osaka Securities Exchange (OSE) and opened the Nasdaq Japan market in June 2000.”¹⁹ However, due in part to competition with Mothers, a market established in 1999 by the Tokyo Stock Exchange for startups, Nasdaq Japan Inc. was dissolved in 2002. The trading platform itself survived after it was reorganized as the Osaka Securities Exchange Hercules market for startups.

Phase 3 began as Softbank’s stock price, which had soared during 1999, began to plummet at the beginning of 2000. This sharp decline forced Masayoshi Son to restructure and clarify his management policies. SoftBank’s annual securities report for FY2000 included a new section entitled “Management Policy and Overview of the SoftBank Group.” It emphasized that “The Group will invest all of its managerial resources in the Internet field, particularly broadband-related businesses;²⁰ as a leader in the Internet business, the Group will strive to develop its venture business infrastructure and carefully make investments through venture capital; and to do this efficiently, the Group will introduce a ‘group structure consisting of three layers—a pure holding company, business management companies by segment, and group businesses.’”²¹

In line with this policy, Son aggressively pursued broadband-related business initiatives and pushed forward on the path to becoming a comprehensive telecom operator. In 2000, SoftBank became the largest shareholder of Nippon Credit Bank (later, Aozora Bank)—temporarily nationalized to dispose of bad loans—by providing 48.9% of the bank’s 79.5 billion yen capital. In 2003, SoftBank sold this stake to Cerberus, a U.S. investment fund, for 101.1 billion yen. “SoftBank earned a net gain of 50 billion yen from the sale and invested most of the proceeds into its broadband

¹⁷ *Ibid.*, p. 100.

¹⁸ Information Technology.

¹⁹ *Op. cit.*, Yamazaki, H. (2007), p. 102.

²⁰ The line or service that provides high-speed telecommunications in a wide area.

²¹ *Op. cit.*, Yamazaki, H. (2007), p. 103.

business.”²² These included the launch of the comprehensive broadband service “Yahoo BB” in 2001 and of the new comprehensive fiber-optic broadband service “Yahoo! BB Hikari” in 2004.

SoftBank entered the fixed-line business with the acquisition in 2004 of Nippon Telecom and made a full-scale entry into the mobile telecommunications business with the 2006 acquisition of Vodafone’s Japanese subsidiary. “With this acquisition, SoftBank was swiftly obtained the status of the third largest mobile carrier [in Japan] behind NTT (NTT East and NTT West) and NTT DoCoMo.”²³

By pressing ahead on its path as a comprehensive telecommunications operator, SoftBank’s corporate size grew rapidly.²⁴ SoftBank’s total assets (on a consolidated basis), around 1 trillion yen at the end of FY2002, reached 4.191 trillion yen by the end of 2006.²⁵

Hiroaki Yamazaki provides the following summary of Son’s meteoric rise:

The most impressive aspects of Masayoshi Son’s entrepreneurial activities are the speed of his decision-making and his uniquely strong negotiating skills to deal with the big names in the business community. This was especially evident in the series of large-scale M&As carried out after FY1994.²⁶

...Most of these deals did not come to fruition, and he was forced to withdraw or liquidate assets after a relatively short period of time. For this reason, his actions were often characterized as seeking short-term capital gain, and because of that he was often labeled as an unscrupulous businessman.

However, a dispassionate examination of his actions since the founding of Japan Softbank shows that Son has been consistent in his approach to pursuing IT infrastructure as his business domain, finding business opportunities in it, and boldly taking on challenges. Although many large M&As ended in failure, his discovery of the “golden egg” Yahoo, and the success of the ADSL²⁷ (broadband infrastructure) business, should be attributed to his speedy decision-making and boldness of action. Furthermore, his actions helped to spur the IT revolution in Japan by exerting strong competitive pressure on the established economic order, as seen in the emergence of new securities markets (TSE Mothers and OSE Hercules), the promotion of broadband penetration, and the breaking up of the two-company oligopoly in the mobile telecommunication business. Masayoshi Son should be recognized as a fierce innovator who altered the economic order, acting boldly without fear of risk.²⁸

Thus, Yamazaki dismisses the view among some observers of Masayoshi Son as an “unscrupulous businessman” and highly praises him as a fierce innovator who altered the economic order, acting on business opportunities without fearing risk. Yamazaki highlights Son’s characteristics, such as his unwavering consistency in the

²² *Ibid.*, p. 104.

²³ *Ibid.*, pp. 104–105.

²⁴ Softbank bought Fukuoka Daiei Hawks, a professional baseball team, in 2004, altering the name to Fukuoka Softbank Hawks.

²⁵ *Op. cit.*, Yamazaki, H. (2007), p. 101.

²⁶ *Ibid.*, p. 107.

²⁷ Asymmetric Digital Subscriber Line—a high-speed, large-capacity telecommunication service to access the Internet by use of an analog telephone line.

²⁸ *Op. cit.*, Yamazaki, H. (2007), p. 107.

business domain as well as his strength in the “speed of decision-making and boldness of action.”

Masayoshi Son After 2007

Son’s entrepreneurial activities, characterized by his bold approach, continued unabated after 2007, as can be seen on the SoftBank Group website.²⁹

First, he pursued acquisitions and investments on a global scale. Highlights included turning Sprint Nextel Corporation of the United States into a subsidiary between 2012 and 2013 and acquiring ARM Holdings plc of the United Kingdom in 2016. In addition, SoftBank carried out acquisitions and investments between 2013 and 2019 in countries including Finland, the United States, Indonesia, India, Singapore, China, South Korea, Canada, and Sweden.

Second, Son also actively pursued the growth of domestic business operations. In the telecommunications business he launched the “White Plan” in 2007, a new pricing plan for mobile communication services that engaged in fierce competition with NTT DoCoMo and KDDI. In 2013, SoftBank turned the PHS (personal handy-phone system) service company WILLCOM into a subsidiary, and a year later, introduced the world’s first emotion-recognizing personal robot, Pepper. In 2018 the company co-founded MONET Technologies Inc. with Toyota Motor to engage in next-generation mobility services.

Third, he focused on the promotion of renewable energy. In 2011, he established SB Energy to popularize and expand the use of renewable energy, and in 2013 he established Bloom Energy Japan to supply electricity through distributed power sources that were both clean and stable. Two years later, SoftBank won a bid for a mega-solar power project in India with an output of 350,000 kW. In 2016, the company signed a memorandum of understanding with the State Grid Corporation of China (SGCC), Korea Electric Power Corporation (KEPCO), and [Russia’s] Rosseti on research and planning to promote the construction of an international interconnected power grid enabling the use of renewable energy over a wide area.

Meanwhile, in July 2015 the original Softbank changed its name to Softbank Group, and Softbank Mobile changed its name to simply Softbank. SoftBank (formerly SoftBank Mobile) thus became a subsidiary of SoftBank Group, going public on the First Section of the Tokyo Stock Exchange in 2018. Thus, Son continued to “boldly act on business opportunities without fearing risk” even after 2007. Like Tadashi Yanai, Masayoshi Son was, and continues to be, an exceptional manager in Japan’s post-1990s business world where the “investment restraint mechanism” has become pervasive.

²⁹The website of SoftBank Group Corp. Kigyojoho enkaku (*Company information and history*). Index (items, people’s names, company names, and organizational names, etc.). <https://www.softbank.jp/corp/aboutus/profile/history>.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Discussion Point 4: Why Did Japan's Economy Slow Down? ICT Revolution and “Disruptive Innovation”



Abstract This section explains the challenge facing Japanese companies after 1990, caught between two types of innovations: breakthrough and disruptive. Before the IT revolution, the slow pace of breakthrough innovation enabled latecomers to surpass the original innovators through incremental innovation. However, with the ICT revolution in the 1990s, breakthrough innovators gained significant “first mover” advantages, often leading to “a winner-takes-all” outcome in which Japanese companies found themselves at a competitive disadvantage. Discussion of Christensen’s “disruptive innovation” theory is incorporated to show how Japanese companies are caught between breakthrough innovation from first-mover countries and disruptive innovation from latecomer countries.

Establishment of “First Mover Advantage” Through the ICT Revolution

In this Discussion Point section, we will examine the stagnation of the Japanese economy and Japanese companies after the 1990s from the perspective of innovation. We address the third question posed in the Introduction: “Why has the Japanese economy, after a long period of relatively high growth, stalled since the 1990s?” The concise answer is that Japanese companies were caught between two types of innovation.

When Japanese-style management was functioning effectively, Japanese companies excelled at incremental innovation (cumulative and continuous innovation), as opposed to breakthrough innovation. The success of Japanese companies in incremental innovation was not limited to the period of rapid economic growth after World War II, when Japanese-style management began to function in earnest, but was common throughout Japan’s long period of growth from around World War I through the 1980s.

In pursuing incremental innovation, Japanese firms adopted the strategy of “latecomer advantage,” improving products developed by first movers and ultimately securing a larger market share. The “latecomer advantage” strategy worked

because the pace of technological innovation was relatively slow and latecomers had ample time to catch up with the first movers.

However, since the 1990s, the ICT (Information and Communication Technology) revolution has ushered in an era of “first mover advantage,” in which the first company to offer a breakthrough innovation quickly gains an overwhelming market share. Once the first mover of a groundbreaking innovation secures the de facto industry standard, it develops a competitive advantage over companies that do not participate in the standards, excluding them from the network. As a result, “a winner takes all” situation came to be widely observed, with the first movers capturing most of the profits.

Thus, Japanese firms that had excelled at incremental innovation found themselves at a competitive disadvantage vis-à-vis the first mover firms that led the way in breakthrough innovation. The effectiveness of the “latecomer advantage” strategy was not eliminated, but became much more limited.

“Disruptive Innovation” in the Innovator’s Dilemma by Clayton M. Christensen

A second factor was “disruptive innovation,” illustrated by Clayton M. Christensen in his acclaimed work “The Innovator’s Dilemma”. To be clear, I repeat the explanation offered in the [“Introduction”](#) of this book.

“Disruptive innovation” makes existing products obsolete and creates entirely new value, as opposed to incremental innovation that strives to continuously improve an existing product. Every so often, a low-priced new product is launched in a market filled with conventional products that are undergoing continuous quality improvement through incremental innovation. These newly introduced products are low priced but their quality is so poor that initially they are not taken seriously. However, on rare occasions the quality of such new products may reach a level that meets the minimum needs of a critical mass of the market. At that point, the existing, conventional products still possess higher quality and price. However, once the new product (i.e., the disruptor) meets the consumers’ minimum needs, price competitiveness comes into play and the newcomer rapidly gains market share. This is when existing products experience damaging results—the mechanism that Christensen calls “disruptive innovation.” In contrast to incremental innovation, “disruptive innovation” destroys the value of existing products and creates entirely new value. Recently, we often hear of phenomena such as the “rapid commoditization of value-added products (price destruction)” and the “Galapagosization of Japanese products.” These are deeply related to “disruptive innovation.”

Many of the sources of “first mover advantage” through breakthrough innovation discussed here are located on the west coast of the United States, including Silicon Valley. On the other hand, the leaders of “disruptive innovation” are often companies from countries and regions such as South Korea, Taiwan, and China. As of

2019, Japanese firms have been struggling, caught between breakthrough innovation from first-mover countries and disruptive innovation from latecomer countries and regions.

“The Innovator’s Solution” and Answer to the Remaining Question

It is worth noting that in his book co-authored with Michael E. Raynor, “The Innovator’s Solution,” (the sequel to “The Innovator’s Dilemma”), Christensen expresses the view that “disruptive innovation” was frequently observed in Japan from the 1960s through 1980s. Noting that disruptive innovation was the fundamental engine of Japan’s economic miracle of the 1960s, 1970s, and 1980s, Christensen, along with two co-authors, offered the following observation in a *Foreign Affairs* article (*Foreign Affairs* 80, no. 2 (March–April 2001) pp. 80–95):

Like other companies, these disruptors – Sony, Toyota, Nippon Steel, Canon, Seiko, Honda and others – have soared to the high end, now producing some of the world’s highest-quality products in their respective markets. Like the American and European companies that they disrupted, Japan’s giants are now stuck at the high end of their markets where there is no growth. The reason America’s economy did not stagnate for an extended period after its leading companies got pinned to the high end was that people could leave those companies, pick up venture capital on the way down, and start new waves of disruptive growth. Japan’s economy, in contrast, lacks the labor market mobility and the venture capital infrastructure to enable this. Hence, Japan played the disruptive game once and profited handsomely. But it is stuck (p. 71, footnote).

According to “The Innovator’s Solution,” “disruptive innovation” can originate at the low end of an established market or in an entirely new market. It can result in creating a new customer base by providing a simple, easy-to-use, and inexpensive product to existing consumers or by providing an affordable, easy-to-use product to a completely new group of consumers. In some cases, a new entrant might take away the incumbent leader’s market share at once. As Christensen notes, “Whereas the current leaders of the industry almost always triumph in battles of sustaining innovation, successful disruptions have been launched most often by entrant companies” (pp. 34–35).

Based on this argument, Japan’s lack of labor market mobility and venture capital infrastructure have been inhibiting a vigorous turnover of leading companies, a turnover that regularly occurs in the United States through continuous “disruptive innovation.” In Japan there aren’t enough new entrants that grow rapidly and rise to the top of the market. This essential point accurately explains some of the problems faced by the Japanese economy.

One question remains unanswered however: if “disruptive innovation” was actively occurring in Japan until the 1980s, why has it stagnated since the 1990s?

One factor is that the leading companies themselves, rather than new entrants, were responsible for disruptive innovation from the 1960s through the 1980s.

Therefore the argument that “existing leading companies are not strong on disruptive innovation” is not a sufficient explanation. We need to understand what happened to Japan's once-innovative, leading companies during the 1990s, during the so-called Lost Decade.

The answer can be found in the emergence of the “investment restraint mechanism” that resulted from dysfunction in the Japanese-style management system, highlighted in [Overview 4](#) at the beginning of Part III. To restore the vitality of Japanese companies, to recreate an environment conducive to “disruptive innovation” and to achieve breakthrough innovation that will enable Japan to gain “first mover advantage,” we must revive the Japanese-style management system and overcome the “investment restraint mechanism.” Kazuo Inamori, Toshifumi Suzuki, Tadashi Yanai, and Masayoshi Son, were innovative entrepreneurs who continued to pursue sound growth strategies without getting caught in the “investment restraint mechanism” even in the post-1990s Japan. Overall, however, they were exceptional cases.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Conclusion: Reviving Innovation— Requirements for the “Two-Front Operation”



Abstract In this section, the author offers recommendations for resolving Japan’s stagnation over the past three decades. He calls for a two-pronged approach to simultaneously capture the expanding low-end market and the very profitable high-end market. To revive innovation and restore vitality among Japanese companies, the author emphasizes the importance of establishing a new Japanese-style management system and overcoming the “investment restraint mechanism” observed among many firms.

Summary of This Book

The aim of this book was to clarify the historical flow of Japan’s economic development, focusing on the changing nature of innovation. In doing so, I set forth three questions to be resolved. Parts I, II, and III provided answers to these questions.

Part I explored the question “Why was it possible for Japan’s economy to attain a growth path so early?” Outside Europe and the United States, the Japanese economy’s takeoff was the earliest among the late developers; the contributing factor was breakthrough innovation originating domestically.

The first half of Part I discusses Zen’emon Konoike, Takatoshi Mitsui, and Genzaemon Nakai, all active during the Edo period. At that time, Japan was cut off from the rest of the world by its isolationist policy, and innovation in Japan can thus be seen as “world” innovation. In this sense, the Edo period innovators can be regarded as breakthrough innovators who accomplished “world firsts.”

In the second half of Part I, we looked at six innovative entrepreneurs: Hikojiro Nakamigawa, a salaried manager; Yataro Iwasaki, Yanosuke Iwasaki, Zenjiro Yasuda, and Soichiro Asano, owner-managers; and Eiichi Shibusawa, an investor-manager. Their business innovations were essentially incremental. However, the unique system created by the combination of these innovations, consisting of mutually facilitative collaboration among the salaried, owner, and investor managers, served as the driving force that made Japan the first to accomplish industrialization among late developers. Thus, these entrepreneurs collectively realized

breakthrough innovation of global historical significance, which led to the “first industrialization among late starter nations.”

With sporadic cases of breakthrough innovation during the Edo period as pre-conditions, and with the series of comprehensive breakthrough innovations between the opening of ports at the end of the Edo era and the post Russo-Japanese War years as direct impetus, Japan accomplished the first successful industrialization among late developers.

Part II examined the question: “How was it possible for the Japanese economy, once on a growth path, to achieve such high growth over a long period of time, a feat rarely seen in world history?” The answer: “As a result of incremental innovation and led by domestic demand, Japan achieved relatively high growth over a long period.”

Unlike the case of other East Asian countries and regions, the Japanese economy continued to experience relatively high growth driven by domestic demand from the 1910s through the 1980s. Expanding domestic demand was driven by an ongoing consumer revolution accompanied by the Westernization of lifestyles and active capital investment in the private sector. The activities of Ichizo Kobayashi, Saburotsuke Suzuki II, Kiichiro Toyoda, Yoshisuke Aikawa, Sazo Idemitsu, Konosuke Matsushita, Masaru Ibuka, Akio Morita, Soichiro Honda, and Takeo Fujisawa, discussed in Part II, were closely related to the consumer revolution. Meanwhile, the activities of Yasuzaemon Matsunaga, Shitagau Noguchi, Yataro Nishiyama, and Toshio Doko, were deeply tied to the promotion of capital investment in the private sector.

Overall, these leaders produced incremental innovation symbolized by the word “kaizen” or “improvement.” A series of innovative entrepreneurial actions enhanced the organizational capacity of Japanese companies and enabled the relatively high growth of the Japanese economy over the long term.

Part III examined the question “Why did Japan’s long period of relatively high economic growth come to an abrupt end with the burst of the economic bubble in the early 1990s, and why has the Japanese economy continued to stall to this day?” The answer can be stated as “Japanese companies were caught between two types of innovation.”

First, breakthrough innovations deriving from the ICT revolution ushered in the era of “first mover advantage.” The strategy of “latecomer advantage” based on incremental innovation that had been the strength of Japanese firms, lost its effectiveness in the era of “first mover advantage.” First movers establish the de facto industry standard and capture most of the profits.

Second, “disruptive innovation,” described by Christensen in his work “The Innovator’s Dilemma,” explains a series of recent phenomena, such as the rapid commoditization of value-added products (price destruction) and the so-called Galapagosization of Japanese products. Japanese companies are struggling, caught between breakthrough innovation originating in developed countries and disruptive innovation originating in less developed countries and regions. This is the answer to the question presented in Part III.

Ways to Revive Innovation

Japanese companies must confront breakthrough innovation from developed countries and disruptive innovation from less developed countries and regions. They must adopt an appropriate growth strategy, carrying out a “two-front operation” to simultaneously capture the expanding low-end market and the highly profitable high-end market.

Japan’s location in East Asia is extremely favorable for the country to implement such a “two-front operation.” East Asia has the potential to contribute to the growth strategies of Japanese companies in two ways: (a) it can expand market size, particularly for low-end products, and (b) it can serve as a development and production base for the high-end market. The geographical proximity of Japan, Korea, China, and Taiwan lowers the cost of moving managerial resources, including human resources. It also enables competitiveness of the entire supply chain through optimal locations in each country and region. If Japan utilizes these conditions, its companies can take advantage of the East Asian economy’s buoyancy and return to the growth path.

Even today, Japanese companies face two frontiers: (1) emerging markets that are continuously growing, and (2) the domestic market, undergoing structural change. Therefore, Japanese companies can still grow if they adopt appropriate strategies to penetrate emerging markets or more deeply cultivate the domestic market (for example, by combining the manufacturing and service industries; by creating an alliance between agriculture, commerce, and manufacturing industries; and engaging in urban planning that is focused on healthcare and welfare). Achieving this would also help create new jobs in Japan.

To revive Japan’s economy, individual companies must clarify their growth strategies and align shareholder interest (higher share prices) with employee interest (better compensation) over the medium to long term. If appropriate investments that result in corporate growth can simultaneously result in higher share prices and better compensation, shareholder interest and employee interest will no longer be at odds. Some believe that it is difficult for companies to pursue growth strategies in Japan whose population has already peaked. However, it is possible for companies to pursue growth strategies if they target the global market or if they deepen their cultivation of the domestic market in response to structural changes in Japan.

Aligning shareholder interest and employee interests over the medium to long term means rebuilding Japanese-style management, but not through a simple return to its original state. While maintaining long-term employment, thus ensuring a sense of security for employees, it is also necessary to undertake a fundamental revision of the seniority system by introducing a meritocracy to motivate workers. Japanese-style management must be transformed from “old-style Japanese management,” in which long-term employment and seniority coexisted, to “new-style Japanese management,” emphasizing long-term employment but not seniority. When manager-centric companies adopt the “new Japanese-style management” and make

appropriate investments based on a long-term vision that develops a growth strategy cultivating the two frontiers, the Japanese economy will make a true comeback.

To that end, the urgent task is to overcome the “investment restraint mechanism” that has led to a dysfunctional Japanese-style management system. To restore the vitality of Japanese companies, to recreate an environment in Japan that is conducive to a series of “disruptive innovations,” and to realize breakthrough innovation that will enable Japan to gain “first mover advantage,” it is essential to establish a “new Japanese-style management” and overcome the “investment restraint mechanism.” Kazuo Inamori, Toshifumi Suzuki, Tadashi Yanai, and Masayoshi Son, were exceptionally innovative individuals who avoided the “investment restraint mechanism” trap even in the post-bubble years since the 1990s, and who continued to implement sound growth strategies. When entrepreneurs like them cease to be the “exceptional” cases, the revival of innovation in Japan will have been accomplished.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Notes About the Translation

In the main text, Japanese names are written as first name and then surname, unless it is part of a translated original work or bibliographical reference, in which case the original order of surname, then first name, is retained, as per Japanese style. Names in the index are indicated in both the original Japanese style (surname, first name) as well as in the Westernized style (first name, surname) inside brackets.

Hepburn-style romanization (Hebon-shiki rōmaji) has been used throughout the book, unless a word is part of a book or article title with Kunrei-shiki romaji.

Bibliography

- Abe, E. (1995). Kakushin no gainen to keieishi (*The concept of innovation and business history*). Meijidaigaku keieironshu (*Meiji University's collection of papers on management*, 42(1)).
- Abe, R. (1931). Godai denryoku no yuetsu (*The superiority and inferiority of five major electric power companies*). Tokyo: Diamond, Inc.
- Abegglen, J. C., & Stalk Jr., G. (1986). Kaisha: Jidai wo tsukuru dainamizumu (*Company: Dynamism that creates the next era*) (S. Ueyama trans.). Tokyo: Kodansha Ltd.
- Ando, Y. (1975). Kindai Nihon keizaishi yoran dainihan (*The second edition of an outline of the economic history of modern Japan*). Tokyo: University of Tokyo Press.
- Asajima, S., & Oshio, T.. (1997). Showa Denko Seiritsushi no kenkyu (*Studies of the history of the establishment of Showa Denko*). Tokyo: Nihon Keizai Hyouronsha.
- Asano, T. (1978). Yasuda Zenjiro: Ishoku no kinyu zaibatsu keiseisha (*Zenjiro Yashuda: A unique figure who shaped financial conglomerate*). In S. Yasuoka, Y. Nagasawa, T. Asano, Y. Mishima, & M. Miyamoto (Eds.), *Nihon no kigyoka 1: Meiji hen (Japanese entrepreneur 1: The Meiji edition)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Caecilius Cyprian, S. (1876). *The treatises of S. Caecilius Cyprian, Bishop of Carthage, and martyr*. (Members of the English Church, trans.). Oxford: James Parker & Co. and Rivingtons. 1876
- Carnegie, A. (1913). *The empire of business*. Toronto: W. Briggs.
- Christensen, C. M. (2011). Inobeshon no jirenma: Gijutsu kakushin ga kyodai kigyo wo horobosutoki zohokaiteiban (*The enlarged and revised edition of the innovator's dilemma: When technological innovation destroys a business giant*) (S. Tamada, Supervisor; Y. Izuhara, Trans.). Tokyo: Shoeisha Publisher.
- Christensen, C. M., Craig, T., & Hart, S. (2001, March-April). The great disruption, *Foreign Affairs*. <https://www.foreignaffairs.com/articles/usa/2001-03-01/great-disruption>
- Christensen, C. M., & Raynor, M. E. (2003). Inobeshon no kai (*The innovator's solution*) (S. Tamada, supervisor; Y. Sakurai, trans.) Tokyo: Shoeisha Publisher.
- Doko, T. (2012). Doko Toshio: Watashi no ririkisho (*Toshio Doko: My résumé*). Tokyo: Nihontoshō Center Co., Ltd.
- Economic and Social Research Institute [ESRI], Cabinet Office, Government of Japan (2008). *Social Innovation Casebook 2008*.
- Egashira, T. (1965). Omi shonin Nakaike no kenkyu (*Studies of Omi merchant Nakai family*). Tokyo: Yuzankaku, Inc.
- Fridenson, P., & Kikkawa, T. (Eds.) (2017). *Ethical capitalism: Shibusawa Eiichi and business leadership in global perspective*. Toronto: University of Toronto Press.
- Fujisawa, T. (1974). Taimatsu ha jibun no tede: Honda to tomoni nijugonen (*Make your own products and sales networks: 25 years with Honda*). Tokyo: Sanno University Press.

- Fukuzawa, Y. (1959). *Jitsugyoron: Fukuzawa Yukichi zenshu dairokkan (Practical business theory: The complete works of Yukichi Fukuzawa, vol. 6)*. Tokyo: Iwanami Shoten Publishers.
- Gerschenkron, A. (1962). *Economic backwardness in historical perspective*. Cambridge, MA: The Belknap Press of Harvard University Press.
- Hanshin Express Electric Railway (Eds.). (1932). *Hanshinkyukodentetsu nijyuugonenshi (The 25-year history of Hanshin Express Electric Railway)*. Osaka: Hanshin Express Electric Railway.
- Hashimoto, J. (1984). *Daikyokoki no Nihon shihonshugi (Japan's capitalism during the great depression)*. Tokyo: University of Tokyo Press.
- Hashimoto, J. (1991). *Nihon keizairon: Nijusseiki sisutemu to nihon keizai (On the Japanese economy: 20th century system and the Japanese economy)*. Kyoto: Minervashobo.
- Hayami, A., & Miyamoto, M. (1988). *Gaisetsu junanaseiki kara juhasseiki (An outline of the 17th to 18th century)*. In A. Hayami, & M. Miyamoto (Eds.), *Nihon keizaishi 1: Keizaishakai no seiritu junanaseiki kara juhasseiki (Japanese economic history 1: The establishment of economic society from the 17th to 18th century)*. Tokyo: Iwanami Shoten Publishers.
- Hayashi, S. (1962). *Ryutsu kakumei: Seihin keiro oyobi shohisha (Distribution revolution: Product sales channel and consumer)*. Tokyo: Chuokoron-shinsha. Inc.
- Honda Motor Co., Ltd. (1955). *Shashi: Soritsu nanashunen kinen tokushu (Commemorative book for the 7th anniversary of its foundation)*. Tokyo: Honda Motor Co., Ltd.
- Honda Motor Co., Ltd. (1975). *Honda no ayumi: Senkyuhyakuyonjuhachinen kara senkyuhyakunanajugonen (The history of Honda: 1948 to 1975)*. Tokyo: Honda Motor Co., Ltd.
- Honda Motor Co., Ltd. (1999). *Katarisugitai koto: Charenji no gojunen (What we would like to say for the next generation: 50 years of challenge)*. Tokyo: Honda Motor Co., Ltd.
- Horie, Y. (1999). *Shinnen no hito Doko Toshio: Hasso no genten (Toshio Doko as a man of conviction: Origin of ideas)*. Tokyo: Sanshindo Publishers.
- Ibuka, M. (1991). *Wagatomo Honda Soichiro (My friend Soichiro Honda)*. Tokyo: Gomashobo.
- Idemitsu Kosan Co., Ltd. (1964). *Idemitsu ryakushi (A brief history of Idemitsu)*. Tokyo: Idemitsu Kosan.
- Idemitsu Kosan Co., Ltd. (Ed.) (1970). *Idemitsu gojunenshi (The fifty years' history of Idemitsu)*. Tokyo: Idemitsu Kosan.
- Idemitsu Kosan Co., Ltd., Personnel Affairs Division, Education Section (Ed.) (2008). *Idemitsu ryakushi daijuichihan (Brief history of Idemitsu)*, Vol. 11. Tokyo: Idemitsu Kosan.
- Idemitsu Kosan Co., Ltd, Store Manager Office (Eds.) (1994). *Tsumikasane no nanajunen (Seventy years of experience)*. Tokyo: Idemitsu Kosan.
- Idemitsu, S. (1962). *Ningen soncho gojunen (Fifty years of respect for people)*. Tokyo: Idemitsu Kosan.
- Idemitsu, S. (1972). *Waga rokujunenkan daiikkan: Sogyo yori showasanjuyonen (My sixty years, Vol. 1: From the company's foundation to Showa 34)*. Tokyo: Idemitsu Kosan.
- Imai, Y. (2015). *Nihon koku no saiken ni miru keieisha Inamori Kazuo no keiei tetsugaku (The management philosophy of manager Kazuo Inamori seen in the reconstruction of Japan Airlines)*, In *Nihon keiei rinri gakkai-shi (Journal of the Japan Society for Business Ethics)*, No. 22.
- Inamori, K. (1997). *Keiten aijin: Watashi no keiei wo sasaetamono (Respecting heaven and loving people: What supported my management)*. Kyoto: PHP Institute, Inc.
- Inamori, K. (2012). *Shinpan keiten aijin: Zerokara no chosen (The new edition of respecting heaven and loving people: Challenging from scratch)*. Kyoto: PHP Institute, Inc.
- Ishikawa, T. (1954). "Suzuki Saburosuke den Mori Nobuteru den (*The life of Saburosuke Suzuki and the life of Nobuteru Mori*)."
Nihon zaikai jinbutsuden zenshu (*A collection of biographies of figures in the Japanese business world*). Tokyo: Toyosyokan.
- Itami, H. (2010). *Honda Soichiro: Yattemo sende nani ga wakaruru (Soichiro Honda: What can you say if you haven't even tried?)*. Kyoto: Minervashobo.

- Itami, H. (2012). *Ningen no Tatsujin Honda Soichiro (Soichiro Honda, a master of being human)*. Kyoto: PHP Institute, Inc.
- Itami, H. (2015). *Kodoseicho wo hikuridashita otoko: Sarariiman shacho Nishiyama Yataro no yume to ketsudan (The dream and decision of Yataro Nishiyama, a salaryman company president who pulled out high-speed economic growth)*. Kyoto: PHP Institute, Inc.
- Itami, H. (2017). *Nandai ga tobikomu otoko Doko Toshio (Toshio Doko, a man who receives a torrent of difficult problems)*. Tokyo: Nikkei Publishing Inc.
- Ito, O. (1988). *Nihon no sangyo soshiki to kigyō: Senzen sengo no hikakubunseki (Japanese industrial organizations and companies: Comparative analysis of the prewar era and the postwar era)*. In Kanagawa University, *Shokei ronso (The review of economics and commerce)*, 24(1).
- Kagono, T. (1998). *Bencha keieisha Inamori Kazuo (kyosera) (Venture manager Kazuo Inamori, Kyocera Corporation)*. In H. Itami, T. Kagono, M. Miyamoto, & S. Yonekura, (Eds.), *Kesubukku Nihon kigyō no keiei kodo 4: Kigyōka no gunzo to jidai no ibuki (Case book management behavior of Japanese companies 4: Images of businessmen and the spirit of the times)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Kametaka, T. (1983). *Jinsei kagaku (Life is chemistry)*. Tokyo: Teibi Publishing Company.
- Kano, A. (1982). *Sony shinjidai: Shukakuki wo mukaeru mirakoka senryaku (New era for Sony: Mirror effect strategy that is about to bear fruit)*. Tokyo: PRESIDENT Inc.
- Kasuya, M. (2002). *Gosho no meiji: Mitsuike no kagyō saihei katei no bunseki (Meiji of wealthy merchants: Analysis of the process of the Mitsui family's business reorganization)*. Nagoya: Nagoya University Press.
- Kawabe, N. (1988). *Sonii no maketingu senryaku, 1945-79 (Sony's marketing strategy, 1945-79)*. In Hiroshima daigaku sogo kagaku-bu kiyō I (*The Bulletin of the School of Integrated Arts and Sciences, Hiroshima University: Regional Cultural Studies*), 14.
- Kawabe, N. (1994). *Sebun-erebun no keieishi: Nichibei kigyō keieiryoku no gyakuten (The business history of Seven Eleven: Reversal of Management Power of Japan and the United States)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Keihanshin Express Electric Railway (1959). *Keihanshinkyūkōdētetsu gojunenishi (The fifty-year history of Keihanshin Express Electric Railway kyu)*. Osaka: Keihanshin Express Electric Railway.
- Kenjo, T. (2008). *Hyoden Nihon no keizaishiso: Shibusawa Eiichi, dotoku to keizai no aida (A critical biography on Japanese economic thought: Eiichi Shibusawa—between moral and economy)*. Tokyo: Nihon Keizai Hyouronsha.
- Kikkawa, T. (1995). *Chukansoshiki no henyō to kyosoteki kasen kozo no keisei (The transformation of intermediary organizations and the formation of competitive oligopoly structures)*. In H. Yamazaki, & T. Kikkawa (Eds.), *Nihon keieishi daiyonkan nihonteki-keiei no renzoku to danzetsu (Japanese management history: The continuity and discontinuity of Japanese-style management, Vol.4)*. Tokyo: Iwanami Shoten Publishers.
- Kikkawa, T. (1996). *Nihon no kigyōshudan: Zaibatsu tonō renzoku to danzetsu (Japanese corporate groups: The continuity and discontinuity with zaibatsu)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Kikkawa, T. (1998a). *Shohikakumei to Ryutsukakumei (Consumption revolution and distribution revolution)*. In the Institute of Social Science, The University of Tokyo, (Eds.), *Nijuseiki shisutemu 3: Keizaiseicho II jūyō to taiko (20th-century system 3: Economic growth II acceptance and resistance)*. Tokyo: University of Tokyo Press.
- Kikkawa, T. (1998b). *Keizaikaihatsu seisaku to kigyō: Sengo-Nihon no keiken (Economic development policy and companies: Japan's postwar experience)*. In the Institute of Social Science, The University of Tokyo (Eds.), *Nijuseiki shisutemu 4: Kaihatsushugi (20th-century system 4: Developmentalism)*. Tokyo: University of Tokyo Press.
- Kikkawa, T. (2003). *Paionia no eidan ga hiraita rekishi no tobira (The doors of history opened by pioneers' decisive judgement)*. *Shukan ekonomisuto (The Weekly Economist)*, 9 December.

- Kikkawa, T. (2004a). *Nihon denryokugyo hatten no dainamizumu (The dynamic development of Japan's electric power business)*. Nagoya: Nagoya University Press.
- Kikkawa, T. (2004b). *Matsunaga Yasuzaemon ikiteiru-uchi oni to iwaretemo (Matsunaga Yasuzaemon called "Ogre" while he was alive)*. Kyoto: Minervashobo.
- Kikkawa, T. (2004c). *Kokusai bungyo-no shinka wo shochosuru Uniqlō seihin (Uniqlō products that symbolize the deepening of the international division of labor)*. *Shukan ekonomisuto (The Weekly Economist)*, 2 March.
- Kikkawa, T. (2007). *Keizai-seicho to Nihon-gata kigyokeiei: Kodo-seicho kara nijyuisseikisyoto madeno kigyokeiei (Economic growth and Japanese-style corporate management: Corporate management from rapid growth to the early 21st century)*. In M. Miyamoto, T. Abe, M. Udagawa, M. Sawai, & T. Kikkawa (Eds.), *Nihon keieishi: Edojidai kara nijyuisseiki he (shinpan) (The new edition of Japanese business history: From the Edo period to the 21st century)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Kikkawa, T. (2010). *Shohyo: Yui Tsunahiko-cho Yasuda Zenjiro (Book review: Zenjiro Yasuda by Tsunehiko Yui)*. *The Nikkei*, 19 December.
- Kikkawa, T. (2012a). *Shohyo: Yui Tsunahiko-cho Yasuda Zenjiro, kaho-ha nettemate (Book review: Zenjiro Yasuda—Good things come to those who work out a strategy by Tsunehiko Yui)*. *Keieishigaku (Japan Business History Review)*, 47(2).
- Kikkawa, T. (2012b). *Idemitsu Sazo: Ogon no dorei tarunakare (Sazo Idemitsu: Don't be a slave to gold)*. Kyoto: Minervashobo.
- Kikkawa, T. (2013). *Shibusawa Eiichi no hitozukuri ni chumoku-suru riyu: Kohatsukoku kogyoka heno shisa to shihonsyugi-kan no saikochiku (Why we pay attention to Eiichi Shibusawa's human resources development: Suggestions for the industrialization of developing countries and the reconstruction of views of capitalism)*. In T. Kikkawa, M. Shimada, & K. Tanaka (Eds.), *Shibusawa Eiichi to hitozukuri (Eiichi Shibusawa and his human resources development)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Kikkawa, T. (2015). *Shohyo: Yamazaki Hiroaki-cho Toyoda-ke boshokujigyo no keieishi, Boshoku kara boshokki soshite jidosha he (Book review: The business history of the Toyoda family's spinning and weaving business—from spinning and weaving to spinning and weaving machinery to automobile by Hiroaki Yamazaki)*. *Shukan ekonomisuto (The Weekly Economist)*, 29 September.
- Kikkawa, T. (2016). *Sangyo keieishi shiriizu 8: Zaibatsu to kigyō gurupu (Industrial business history series 8: zaibatsu and corporate groups)*. Tokyo: Japan Business History Institute.
- Kikkawa, T. (2017a). *Shohyo: Udagawa Masaru-cho Nissan no sogyosha Aikawa Yoshisuke (Book review: Nissan founder Yoshisuke Aikawa by Masaru Udagawa)*. *Shukan ekonomisuto (The Weekly Economist)*, 18 July.
- Kikkawa, T. (2017b). *Nihon no kigyōka 3: Doko Toshio, bijon to baitarithii wo awasemotsu kaikakusha (Japanese entrepreneur 3: Toshio Doko—a reformer with both vision and vitality)*. Kyoto: PHP Institute, Inc.
- Kikkawa, T., & Nonaka, I. (1995). *Kakushinteki kigyosha katudo no keiki: Hondagiken to Sonii no jirei (Continuous succession of innovative business activity by businesspeople: Cases of Honda Motor Corporation and Sony)*. In T. Yui, & Hashimoto, J. (Eds.), *Kakushin no keieishi: Senzen sengo niokeru Nihonkigyo no kakushin kodo (The business history of innovation: Japanese companies' innovative behavior before and after World War II)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Kikkawa, T., & Fridenson, P. (Eds.) (2014). *Gurobaru shihonsyugi no nakano Shibusawa Eiichi: Gapon kyapitarizumu to moraru (Eiichi Shibusawa in global capitalism: Gapon capitalism and morality)*. Tokyo: Toyo Keizai Inc.
- Kikkawa, T., Shimada, M., & Tanaka, K. (Eds.) (2013). *Shibusawa Eiichi to hitozukuri (Eiichi Shibusawa and his human resources development)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Kikkawa, T., & Takaoka, M. (1997). *Sengo Nihon no seikatsu yoshiki no henka to ryutsu heno inpakuto (The transformation of postwar Japan's lifestyle and an impact on distribution)*. In *The University of Tokyo, Shakaikagaku kenkyu (Journal of Social Science)*, 48(5).

- Kimura, M. (2014). Gurobaru-shakai niokeru Shibusawa Eiichi no shogyo dotokukan (*Eiichi Shibusawa's commercial and moral views in the global community*). In T. Kikkawa, & P. Fridenson (Eds.) Gurobaru shihonshugi nonakano Shibusawa Eiichi: gappon kyapitarizumu to moraru (*Eiichi Shibusawa in global capitalism: Gappon capitalism and moral*). Tokyo: Toyo Keizai Inc.
- Kirzner, I. M.(1985). Kyoso to kigyoka seishin bencha no keizai riron (*Competition and business spirit: Ventures' economic theory*) (Y. Tajima supervisor; M. Eda, I. Kobayashi, S. Sasaki, & T. Noguchi, co-trans.). Tokyo: Chikura Publishing Company.
- Kobayakawa, Y. (1986). Yuki Mori kaikaku to Yasuda zaibatsu no saihensei (*Yuki and Mori reforms and the reorganization of Yasuda zaibatsu*). In T. Yui (Eds.), Yasuda zaibatsu (*Yasuda zaibatsu*). Tokyo: Nikkei Publishing Inc.
- Kobayashi, I. (1953). Itsuo jijoden (*An autobiography of Itsuo*). Tokyo: Sankei Shimbun Co., Ltd.
- Kobayashi, M. (1977). Nihon no kogyoka to kangyoharaisage (*Japan's industrialization and sale of government projects*). Tokyo: Toyo Keizai Inc.
- Kojima, N. (1980). Matsunaga Yasuzaemon no shogai (*The life of Yasuzaemon Matsunaga*). Tokyo: The Publication Group of Biographies of Yasuzaemon Matsunaga.
- Kono, J. (1956). Matsushita Konosuke-shi: Ryohinrenka de seiko (*Mr. Konosuke Matsushita: Succeeding by good products with low prices*). Daiyamondo (*Diamond*), 2 October.
- Korean Idemitsu History Research Committee and History Compilation Office, the General Affairs Division (Eds.) (1959). Chosen Idemitsu-shi oyobi Chosen seiji keizai ippan jyokyo chosa shiryō shuroku (*Records on Korean Idemitsu history and investigations on the general situation of Korean politics and economy*).
- Kyocera Corporation (2000). The 40th anniversary company history compilation committee of Kyocera Corporation. Hateshinai mirai he no chosen: Kyocera kokoro no keiei 40 nen (*Challenge toward an everlasting future: 40 years of Kyocera management from the heart*). Kyoto: Kyocera Corporation.
- Maeda, K. (1979). Kaigai makethingu no hatten: Sonii to Hondagiken no kaigai kogaisha (*The development of overseas marketing: Overseas subsidiaries of Sony and Honda Motor*). In K. Nakagawa, H. Morikawa, & T. Yui (Eds.), Kindai Nihon keieishi no kisochishiki zohoban (*The enlarged edition of basic knowledge on modern Japanese business history*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Matsui, K. (1979). Erekutoronikusu sangyo: Senkushatachi (*The electronics industry: Pioneers*). In K. Nakagawa, H. Morikawa, & T. Yui, (Eds.) Kindai Nihon keieishi no kisochishiki zohoban (*The enlarged edition of basic knowledge on modern Japanese business history*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Matsunaga, Y.. (1927). Denkiijigyo (*Electric power business*). Shakaikeizai taikai daikyukan (*Social and economic systems, vol.9*). Tokyo: Nihon Hyoron Sha Co., Ltd.
- Matsunaga, Y. (1933). Denkiijigyo tosei ni tsuite (*Regarding the control of the electric power business*). Denki koron (*Public opinion on Electric power*), 17(10).
- Matsunaga, Y. (1964). Watashi no rirekisyō 27 (*My résumé 27*) in Nihon keizai shimbun (*The Nikkei*). 28 January.
- Matsushita, K. (1956). Shinnen no yume (*New Year's Dreams*). *Diamond Magazine*. New Year Issue.
- Matsuzawa, M. (1992). Doko Toshio no oitachi to sugao (*The background and personality of Toshio Doko*). Yokohama: Yamateshobo Shinsha Publishers.
- Ministry of Health, Labor and Welfare (2005, December). *Vital statistics*.
- Minoh-Arima Electric Railway (1908, October). Mottomo yubonaru densha. (*The Most Promising Train*).
- Minoh-Arima Electric Railway (1909, Fall). Ikanaru tochi wo erabubekika, ikanaru kaoku ni sumubekika. (*What kind of land should you choose and what kind of house should you live in? (a guide to residential areas)*).

- Mitsui Public Relations Committee (2009). Mitsuike hassho no chi: Matsusaka (*The Land of Mitsui's origin: Matsusaka*). <https://www.mitsuipr.com/history/edo/01/> Original version published in *MITSUI Field*, Vol. 3 (Summer 2009).
- Mitsui Public Relations Committee (2021). Echigoya tanjo to Takatoshi no shinshoho (*The birth of Echigoya and Takatoshi's new business method*). <https://www.mitsuipr.com/history/edo/02/>
- Miwa, R. (1979). Mitsubishi no hassei to Iwasaki Yataro: Mitsubishijokisengaisha (The formation of Mitsubishi and Yataro Iwasaki: Mitsubishi Steamship Company). In K. Nakagawa, H. Morikawa, & T. Yui, (Eds.), *Kindai Nihon keieishi no kisoichishiki zohoban (The enlarged edition of basic knowledge on modern Japanese business history)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Miwa, R. (1993). *Gaisetsu Nihon keizaishi kingendai (An outline of Japanese modern economic history)*. Tokyo: University of Tokyo Press.
- Miyamoto, M. (1978). Konoike Zen'emon: Tenka no daidokoro wo sasaeta ryogaesho (*Zen'emon Konoike: Exchange merchant who supported Osaka finance*). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara (Eds.), *Edoki shonin no kakushinteki kodo: Nihonteki keiei no rutsu (Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Miyamoto, M. (2004). Konoike Zen'emon (*Zen'emon Konoike*). In H. Yamazaki, & The Business History Society of Japan (Eds.), *Nihon-keieishi no kisoichishiki (Basic knowledge on Japanese business history)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Miyamoto, M. 2007. "Nihongata kigyokeiei no kigen" (The origins of Japanese-style company management) in M. Miyamoto, T. Abe, M. Udagawa, M. Sawai, and T. Kikkawa. *Nihon keieishi: Edojidai kara nijyuisseiki he (shinpan) (The new edition of Japanese business history: From the Edo period to the 21st century)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Miyamoto, M. (2009). *Shijyo to kigyō (Markets and companies)*. In M. Miyamoto, & M. Kasuya (Eds.), *Koza Nihon keieishi daiikkan: Keieishi, Edo no keiken, senroppyakunen kara senhappyakuhachijuninen made (Vol.1 of a lecture on Japanese business history: Edo experience 1600–1882)*. Kyoto: Minervashobo.
- Miyamoto, M. (2014). Mierute niyoru shihonshugi: kabushikigaisya seido, zaikaijin, Shibusawa Eiichi (*Capitalism by 'visible hand': Joint stock company system, businesspersons, and Eiichi Shibusawa*). In T. Kikkawa, & P. Fridenson (Eds.), *Gurobaru shihonshugi no nakano Shibusawa Eiichi: Gapon kyapitarizumu to moraru (Eiichi Shibusawa in global capitalism: Gapon capitalism and morals)*. Tokyo: Toyo Keizai Inc.
- Miyamoto, M. (Ed.) (2016). *Nihon no kigyōka 1 Shibusawa Eiichi: Nihon no kindai no tobira wo hiraita zaikairida (Japanese entrepreneur 1: Eiichi Shibusawa—business leader who opened the doors to Japan's modernization)*. Kyoto: PHP Institute, Inc.
- Mizuhara, M. (1978). Nakai Genzaemon: Omi shonin no tatenpokeiei (*Genzaemon Nakai: Omi merchants' management of multiple stores*). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara (Eds.) *Edoki syonin no kakushinteki kodo: Nihonteki keiei no rutsu (Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Morikawa, H. (1973). *Nihon-gata keiei no genryū: Keiei nashonarizumu no kigyōrinen (The roots of Japanese-style management: Corporate philosophy of management nationalism)*. Tokyo: Toyo Keizai Inc.
- Morikawa, H. (1980). *Zaibatsu no keieishi-teki kenkyū (Business history studies of zaibatsu)*. Tokyo: Toyo Keizai Inc.
- Morikawa, H. (1981). *Nihon keieishi (Japanese business history)*. Tokyo: Nikkei Publishing Inc.
- Morikawa, H. (2001). *Nishiyama Yataro (Kawasaki seitetsu): Kan heno hangyakusha niyoru goriteki kosoryōku (Yataro Nishiyama (Kawasaki Steel): Rational conceptual capacities by a rebel against the government)*. In S. Sasaki (Eds.), *Nihon no sengo kigyōkashi: Hankotsu no keifu (The history of postwar Japanese entrepreneurs: A timeline of anti-establishment minds)*. Tokyo: Yuhikaku Publishing Co., Ltd.

- Morikawa, H. & Yuzawa, T. (1980). Dai-jugokai taikai toitsurondai: Taishoki ni okeru chukibo zaibatsu no seicho to genkai, togihokoku (*Integrated subject of the 15th convention: Discussion report 'The growth and limit of mid-level zaibatsu in the Taisho period'*). Keieishigaku (*Japan Business History Review*), 15(1).
- Nakagawa, K. (1967). Nihon no kogyoka katei ni okeru soshikika saretta kigyoshakatsudo (*Organized entrepreneurial activity in the process of Japan's industrialization*). Keieishigaku (*Japan Business History Review*), 2(3).
- Nagasawa, Y. (1978). Iwasaki Yanosuke: Mitsubishi kindai wo ninatta nidaime (*Yanosuke Iwasaki: The second generation who modernized Mitsubishi*). In S. Yasuoka, Y. Nagasawa, T. Asano, Y. Mimishima, & M. Miyamoto, (Eds.). Nihon no kigyoka 1: Meiji-hen (*Japanese entrepreneurs 1: The Meiji edition*) Tokyo: Yuhikaku Publishing Co., Ltd.
- Nakamura, K. (1992). Kaden ryosan ryohan taisei no keisei (*The formation of mass production and mass sale systems of home electric appliances*) in H. Morikawa (Ed.), Bijinesuman no tameno sengo keieishi nyumon zaibatsu kaitai kara kokusaika made (*An introduction to postwar business history for businessmen: From the dissolution of zaibatsu to internationalization*). Tokyo: Nikkei Publishing Inc.
- Nakamura, K. (2001). Matsushita Konosuke: Naisei to hatsugen (*Konosuke Matsushita: Introspection and remarks*). In S. Sasaki (Ed.), Nihon no sengo kigyokashi: Hankotsu no keifu (*The history of postwar Japanese entrepreneur: A timeline of anti-establishment minds*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Nakamura, S. (1978). Noguchi Shitagau: Kyodai denryokugakaku kombinato no kensetsu (*Shitagau Noguchi: The construction of large-scale electric and chemical complexes*). In H. Morikawa, S. Nakamura, K. Maeda, K. Sugiyama, & K. Ishikawa (Eds.), Nihon no kigyoka 3: Showa-hen (*Japanese entrepreneurs 3: The Showa edition*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Nakamura, S. (1999). Nakamigawa Hikojiro no Mitsui-kaikaku (*Hikojiro Nakamigawa's reform of Mitsui*). In M. Udagawa, & S. Nakamura (Eds.), Materiaru Nihon keieishi (*Material Japanese business history*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Nankaido General Research Institute (Ed.). (1985). Nankai ensen hyakunen-shi (*One hundred-year history of Area along Nankai Electric Railway line*). Nankai Electric Railway Corporation.
- NHK reporting team (1992). Gijutsu to kakutoshita otoko Honda Soichiro (*Soichiro Honda—A man who fought with technology*). Tokyo: NHK Publishing, Inc.
- Niida, H., & Mishima, M. (1991). Ryutsu keiretsuka no tenkai: Kateidenki (*The development of distribution keiretsu: Home electric appliances*). In Y. Miwa, & K. Nishimura (Eds.), Nihon no Ryutsu (*Japanese distribution*). Tokyo: University of Tokyo Press.
- Nikkei (Eds.). (1988). Showa no ayumi 2: Nihon no sangyo (*Showa history 2: Japanese industries*). Tokyo: Nikkei Publishing Inc.
- Nishida, M. (1983). Kataritsugu keiei: Honda to tomoni sanjyunen (*Handing down business management to the next generation: 30 years with Honda*). Tokyo: Kodansha Ltd.
- Nishikawa, N. (2004). Shoka no choaiho to zaimu kanri (*Merchant families' accounts-balancing method and finance management*). In The Business History Society of Japan, & H. Yamazaki (Eds.), Nihon keieishi no kisochoishiki (*Basic knowledge of Japanese business history*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Ogawa, S. (2000). Dimando chen keiei: Ryutsugyo no shin bijinesumoderu (*Demand chain management: New business model of the distribution industry*) (pp. 80-82). Tokyo: Nikkei Publishing Inc.
- Oikawa, Y. (2017). Nihon no kigyoka 5: Kobayashi Ichizo, toshigata daisanjisangyo no senkutekisozosha (*Japanese entrepreneur 5: Ichizo Kobayashi—pioneering creator of urban-type tertiary industry*). Kyoto: PHP Institute, Inc.
- Okazaki, T. (1999). Mochikabugaisha no rekishi: Zaibatsu to kigyotochi (*The history of holding companies: Zaibatsu and corporate governance*). Tokyo: Chikumashobo Ltd.
- Ōmori, H. (1980). Matsushita Konosuke kaden okoku wo kizukiageta naiseiteki kigyoka (*Konosuke Matsushita—Introspective businessman who built a home appliances kingdom*). In K. Shimokawa, A. Sakaguchi, H. Matsushita, Y. Katsura, & H. Ōmori, (Eds.), Nihon no

- kigyoka (4) sengohei (*Japanese businessmen 4: The postwar edition*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Ōno, T. (1978). Toyota seisan hoshiki: Datsukibo no keiei wo mezashite (*Toyota production system: Aiming for management without scale*). Tokyo: Diamond, Inc.
- Ōshio, T. (1989). Nitchitsu kontserun no kenkyu (*Studies of Nitchitsu Konzern*). Tokyo: Nihon Keizai Hyouronsha.
- Piketty, T. (2014). Nijuisseiki no shihon (*21th century capital*) (H. Yamagata, S. Morioka, & M. Morimoto, trans.). Tokyo: Misuzu Shobo.
- Saito, K. (1987). Shinko kontserun riken no kenkyu: Ōkochi Masatoshi to rikensangyodan (*Studies of RIKEN, an emerging Konzern: Masatoshi Ōkochi and RIKEN industrial group*). Tokyo: Jichosha.
- Saito, O. (2013). Puroto kogyoka no jidai seiyo to Nihon no hikaku-shi (*The era of protoindustrialization: The comparative history of Western Europe and Japan*). Tokyo: Iwanami Shoten Publishers.
- Sakakibara, H. (1976). Hyoden Doko Toshio (*A critical biography of Toshio Doko*). Tokyo: Kokusai Shogyo Publishing Corp.
- Sakiya, T. (1982). *Honda Motor Co., Ltd.: The men, the management, the machines*. Tokyo: Kodansha International Ltd.
- Sakudo, Y. (1978). Edokishonin no keifu to tokushitsu (*The genealogy and features of merchants in the Edo period*). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara, (Eds.), *Edokishonin no kakushinteki kodo Nihontekikeiei no rutsu (Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Sakurai, N. (1964). Denryokusangyo to kokkakanri (*Electric power business and state control*). In T. Kurihara, Toy (Ed.), *Gendai Nihon sangyohatten-shi III denryoku (The history of the development of modern Japanese industries III: Electric power)*. Tokyo: Kojunsha.
- Schumpeter, J. A. (1958). Keikijunkan-ron shihonsyugikatei no rironteki rekishiteki tokeiteki bunseki (I) (*Economic cycle theory: Theoretical, historical and statistical analysis of capitalism processes (I)*) (S. Yoshida, & The Japan Research Institute of Financial and Economic, trans.) . Tokyo: Yuhikaku Publishing Co., Ltd.
- Schumpeter, J. A. (1977). Keizaihatten no riron: Kigyosharijun shihon shinyo rishi oyobi keiki no kaiten ni kansuru ichikenkyu (*Theory of economic development: A study of entrepreneurs' profits, capital, credit, interest and economic rotation*) (Y. Shionoya, I. Nakayama, & S. Tobata, trans.) . Tokyo: Iwanami Shoten Publishers.
- Schumpeter, J. A. (1995). Shihon-shugi, shakai-shugi, minshu-shugi (*Capitalism, socialism and democracy*) (I. Nakayama, & S. Tobata, trans.) . Tokyo: Toyo Keizai Inc.
- Seoka, M. (1978). Takatoshi Mitsui: Edo-shoho no soshisha (Takatoshi Mitsui: Initiator of Edo business). In Y. Sakudo, M. Miyamoto, H. Hatakeyama, M. Seoka, & M. Mizuhara (Eds.), *Edoki shonin no kakushinteki kodo: Nihontekikeiei no rutsu (Innovative behaviors of merchants in the Edo period: The roots of Japanese-style management)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Shimada, M. (2007). Shibusawa Eiichi no kigyosha katsudo no kenkyu: Senzenki kigyoshisutemu no soshutsu to shushushisha keieisha no yakuwari (*Studies of the activity of Eiichi Shibusawa as an entrepreneur: The creation of prewar corporate systems and the role of investors and corporate managers*). Tokyo: Nihon Keizai Hyouronsha.
- Shimada, M. (2011). Shibusawa Eiichi shakaikigyoka no senkusha (*Eiichi Shibusawa: A pioneering social-oriented entrepreneur*). Tokyo: Iwanami Shoten Publishers.
- Shimamoto, M. (2005). Kyosera: keieishigen no renstateki doin (*Kyocera Corporation: The chain mobilization of management resources*). In S. Yonekura (Eds.), *kesubukku Nihon no statoappukigyo (Case book on Japanese startups)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Shimotani, M. (1993). Nihon no keiretsu to kigyo grupu: Sono rekishi to riron (*Japanese keiretsu and corporate groups: Their history and theory*). Tokyo: Yuhikaku Publishing Co., Ltd.

- Shiroyama, S. (1972). Yukidodo (*Magnificently with dignity*). SHINCHOSHA Publishing Co., Ltd. (First published in 1971 in the original title of Kanto (*Cold light*)).
- Sony Corporation (1986). Sonii soritsu yonjussunen-kinenshi: Genryu (*Commemorative book for the 40th anniversary of Sony's foundation: Origin*). Sony.
- Statistics Bureau of Japan, Ministry of Internal Affairs and Communications (Eds.) (1985). Kokusai tokeiyoran senkyuhyakuhachijugonen-ban (*Handbook on international statistics (1985 edition)*).
- Statistics Bureau of Japan, Ministry of Internal Affairs and Communications (Eds.) (1994). Sekai no tokei (senkyuhyakuyujuyonen) (*World Statistics (1994)*).
- Statistics Bureau of Japan, Prime Minister's Office (1975). Kokusai tokeiyoran senkyuhyakunanajugonen-ban (*Handbook on international statistics (1975 edition)*).
- Sue, K. (2000). Manshujihen sono boppatsugen'in wo saguru: Senkyuhyakunijunendai ni okeru zaibatsushihon no henseigae to jukagakukogyoka (*To search of the cause of the outbreak of the Manchurian Incident: The reorganization of financial conglomerate capital and heavy chemical industrialization in the 1920s*) Nihondaigaku keizaigakubu keizaigakaku kenkyujo-kiyo (*The Journal of Research Institute of Economic Science*), No. 29.
- Suehiro, A. (2000). Kyacchiappu-gata kogyoka-ron: Ajia keizai no kiseki to tenbo (*Catch-up style industrialization theory: The trajectory and prospects of Asian economies*). Nagoya: Nagoya University Press.
- Sugiyama, K. (1979). Kojin-ginko no sosetsu: Yasuda-ginko no seisei (*The foundation of an individual bank: The creation of Yasuda Bank*). In K. Nakagawa, H. Mori, & T. Yui (Eds.), Kindai Nihon keieishi no kisoichishiki zohoban (*The enlarged edition of basic knowledge of modern Japanese business history*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Suzuki, Y. (1980). Showa-shoki no kourisho mondai: Hyakkaten to chusho shoten no kakuchiku (*The question of retailers in the early Showa period: Competition between department stores and medium and small-sized stores*). Tokyo: Nikkei Publishing Inc.
- Takaoka, M. (1997). Sengo fukkoki no Nihon no hyakkaten to itaku shire: Nihonteki torihiki kanko no keisei katei (*Japanese department stores in the postwar recovery period and consigned purchase: the formation process of Japanese-style trade practices*). Keieishigaku (*Japan Business History Review*), 32(1).
- Takaoka, M. (1999a). Kodo keizai seichoki no supamaketto no shigen hokan mekanizumu: Nihon no ryutsu kakumei no jitsuzo (*The resource supplementation mechanisms of supermarkets in the rapid economic growth period: The reality of Japan's distribution revolution*). In Shakai keizai shigaku (*Socio-Economic History*), 65(1).
- Takaoka, M. (1999b). Nihon no konbiniensutoa no seichokatei ni okeru shigenhokanmekanizumu furanchaizushisutemu no saiyo (*The resources storage mechanisms in the growth process of Japanese convenience stores: The adoption of the franchise system*). In Keieishigaku (*Japan Business History Review*), 34(2).
- Takaoka, M. (2004). Gendai no ryutsu kigyō to kigyōkan kankei (*Modern distribution companies and inter-company relations*). In M. Kamekawa, M. Takaoka, & N. Yamanaka, (Eds.). Nyumon gendai kigyō-ron (*An introduction to modern company theory*). Tokyo: SHINSEI-SHA Co., Ltd.
- Takaoka, M., & Lee, M. (2008). Sapuraichen keiei no shinka ni okeru kyotsusei to taishosei, kourigyō: worumato to seibun ando ai (*Commonality and contrasts in the evolution of supply chain management—retail business: Walmart and Seven & i*). In H. Shiomi, & T. Kikkawa (Eds.), Nihonkigyō no gurobaru kyoso senryaku: nyuekonomi to ushinawareta junen no saikensho (*Japanese companies' global competition strategy: New economy and a reexamination of the "Lost Decade"*). Nagoya: Nagoya University Press.
- Takeda, H. (1992). Takakuteki jigiyobumon no teichaku to kontserun soshiki no seibi (*The settlement of diversified business sectors and the development of Konzern organizations*). In The Center for Business and Industrial Research, Hosei University, J. Hashimoto, & H. Takeda (Eds.), Nihon keizai no hatten to kigyōsyudan (*The development of the Japanese economy and corporate groups*). Tokyo: University of Tokyo Press.

- Tamura, M. (1986). *Nihon-gata ryutsu sisutemu (Japanese-style distribution system)*. Tokyo: Chikura Publishing Company.
- Tanaka, K. (2014). Keiei rinen teiji-gata: Shibusawa Eiichi, Matsushita Konosuke, Inamori Kazuo (*Management philosophy proposal style: Eiichi Shibusawa, Konosuke Matsushita and Kazuo Inamori*). In M. Miyamoto, T. Kagono, & Forum for Entrepreneurial Studies (Eds.), *Kigyokagaku no susume (Recommendation of entrepreneurial studies)* (pp. 406-417). Tokyo: Yuhikaku Publishing Co., Ltd.
- Tatsuki, M. (1995). Kogyoka to shosha, kaiun, kinyu (*Industrialization and trading company, marine transport, and finance*). In M. Miyamoto, & T. Abe (Eds.), *Nihon keieishi 2: Keieikakushin to kogyoka (Japanese business history 2: Management innovation and industrialization)*. Tokyo: Iwanami Shoten Publishers.
- Teratani, T. (1979). Asano Soichiro to Asano zaibatsu: Sangyozaibatsu no keisei (*Soichiro Asano and Asano zaibatsu: The formation of industrial zaibatsu*). In K. Nakagawa, H. Morikawa, & T. Yui (Eds.), *Kindai Nihon keieishi no kisochishiki zohoban (The enlarged edition of basic knowledge on modern Japanese business history)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- The Center for Business and Industrial Research, Hosei University, J. Hashimoto, & H. Takeda (Eds.) (1992). *Nihon kezai no hatten to kigyoshudan (The development of the Japanese economy and corporate groups)*. Tokyo: University of Tokyo Press.
- The Civilian Employment Division, the Coordination Bureau, the Economic Planning Agency (1959). *Sengo kokuminseikatsu no kozoteki henka (Kokuminseikatsu hakusho Showa sanjuyonenban) (The structural transformation of postwar national lifestyle (White paper on the national lifestyle for 1959))*. The Printing Bureau, the Ministry of Finance.
- The Distribution Economics Institute of Japan (Eds.) (1972). *Konbiniensu sutoa manyuaru (Convenience store manual)*. Small and Medium-Sized Enterprises Agency, Corporate Bureau, the Ministry of International Trade and Industry (supervised). Small and Medium-Sized Enterprises Agency.
- The Economic Planning Agency (Eds.) (1956). *Showa sanjuichinendo Keizai hakusho (White paper on the economy for fiscal 1956)*. The Printing Bureau, the Ministry of Finance.
- The Economic Planning Agency (Eds.) (1964). *Showa sanjuhachinendo Kokuminseikatsu hakusho (White paper on the national lifestyle for fiscal 1963)*. The Printing Bureau, the Ministry of Finance.
- The Editing Office of a History of Ajinomoto Co., Inc. (Eds.) (1971). *Ajinomoto kabushikigaisha shashi dai-ikkan (Vol. 1 of a history of Ajinomoto Co., Inc.)*. Ajinomoto.
- The Editing Office of a History of Ajinomoto Co., Inc. (Eds.) (2009). *Ajinomoto Gurupu no hyakunen: Shinkachi sozo to kaitakusha seishin (The one hundred years of the Ajinomoto Group: New value creation and pioneer spirit)*. Ajinomoto.
- The Hakata Idemitsu History Research Committee and the Idemitsu History Compilation Office, the General Affairs Division (Eds.) (1959). *Hakata Idemitsu-shi narabini ichibu honten jyokyo chosa shuroku (History of Hakata Idemitsu and investigation records of the head store)*.
- The Idemitsu History Compilation Office of the Kwantung Leased Territory Manchurian Idemitsu History Investigation Committee (Eds.) (1958). *Kantoshu Manshu Idemitsu-shi oyobi Nichiman seijikeizai ippan jokyō chosa shiryō shuroku (The Kwantung Leased Territory Manchurian Idemitsu history and Japan-Manchuria political, economic and general affairs survey material)*.
- The Industrial Information Center, Hosei University, J. Hashimoto, & H. Takeda (Eds.) (1992). *Nihon kezai no hatten to kigyoshudan (The development of the Japanese economy and corporate groups)*. Tokyo: University of Tokyo Press.
- The Institute of Economic Research, Osaka City University (1974). *Osaka ni okeru Kaden oroshi ryutu kikou no saihen katei (The reorganization process of wholesale distribution organizations for home electronics in Osaka)*.
- The Late Saburotsuke Suzuki-kun Biography Compilation Society (1932). *Suzuki Saburotsuke-den (A biography of Saburotsuke Suzuki)*.
- The Public Relations Center of Sony Corporation (Eds.) (1996). *Sonii soritsu gojussyunenkinenshi: Genryu (Commemorative book of the 50th anniversary of Sony's foundation: Origins)*. Tokyo: Sony Public Relations Center.

- The Research and Statistical Department, the Economic and Industrial Policy Bureau, the Ministry of Economy, Trade and Industry (2005). 2005 wagakuni no shogyo aratana hatten wo mezashi kawariyuku shogyo (*Our country's commerce in 2005: Changing commerce for new development*). Tokyo: The Ministry of Economy, Trade and Industry.
- The Research Committee for the History of Oil Depots in Shanghai and the Compilation Office of the History of Idemitsu, the General Affairs Division (Eds.) (1959). Idemitsu Shanghai yusojo-shi narabini chuka idemitsukosan jokyo chosa shuroku (genko) (*Records of the history of Idemitsu Shanghai oil depots and research of the situation of China Idemitsu Kosan (draft)*).
- The Study Society on the Question of the Development of Overseas Economic Cooperation Fund (trans.) (1994). Higashi-ajia no kiseki: Keizaiseicho to seifu no yakuwari (*The miracle of East Asia: Economic growth and the role of government*). Tokyo: Toyo Keizai Inc.
- The World Bank. (1993). *The East Asian miracle*. New York: Oxford University Press.
- Toho Electric Power Co., Ltd. History Compilation Committee (Eds.) (1962). Tohodenryoku-shi (*The History of Toho Electric Power Co., Ltd.*). Tokyo: The Publishing Association of the History of Toho Electric Power Co., Ltd.
- Tokyo Shibaura Electric Co., Ltd. (Eds.) (1977). Toshiba hyakunen-shi (*One hundred year's history of Toshiba*). Tokyo: Tokyo Shibaura Electric Co., Ltd.
- Tokyo Electric Power Company (Eds.) (2002). Kanto no denki jigyo to tokyodenryoku denki jigyo no soshi kara tokyodenryoku gojunen no kiseki (*The Kanto Region's Electric Utility Industry and Tokyo Electric Power - From the Inception of the Electric Utility Industry to the 50th Anniversary of Tokyo Electric Power*). Tokyo: TEPCO.
- Tokyu Land Corporation (Eds.) (1973). Machizukuri gojunen (*Fifty years of urban planning*). Tokyo: Tokyu Land Corporation.
- Tomitsuka, K. (1980). Otobai no rekishi: Mekanizumu no henshen to gijutsushatachi wo meguru dorama (*The history of motorcycles: Changing mechanisms and the drama among engineers*). Tokyo: Sankaido Publishing Co., Ltd.
- Udagawa, M. (1979). Nissan kontserun no tenkai: Shinzoku grupu no keiei katudo no shutaisei (*The development of the Nissan Konzern: A compilation of the management activity of the family group*). In K. Nakagawa, H. Morikawa, & T. Yui (Eds.), *Kindai Nihon keiei no kiso chishiki zohoban (The enlarged edition of basic knowledge of modern Japanese business history)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Udagawa, M. (1984). *Shinko Zaibatsu (New Zaibatsu)*. Tokyo: Nikkei Publishing Inc.
- Udagawa, M. (2017). Nissan no sogyosha Yoshisuke Aikawa (*Nissan founder Yoshisuke Aikawa*). Tokyo: Yoshikawa Kobunkan.
- Uemura, M. (2009). Marketing to butsuryu (*Marketing and logistics*). In M. Miyamoto, & M. Kasuya (Eds.), *Koza Nihon keiseishi daiikkan keiseishi: Edo no keiken 1600–1882 (Vol. 1 of a lecture on Japanese business history: Edo experience 1600–1882)*. Kyoto: Minervashobo.
- Vogel, E. F. (1979). *Japan as number one: Lessons for America*. Cambridge, MA: Harvard University Press.
- Wada, K. 2004. "Toyoda Kiichiro" (*Kiichiro Toyoda*) in Business History Society of Japan eds with Yamazaki, H. ed. in chief, *Nihon keiseishi no kiso chishiki (Basic knowledge on Japanese business history)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Wada, K., Yui, T., & Toyota Motor Corporation's History and Culture Department (Eds.) (2001). *Toyoda Kiichiro den (A biography of Kiichiro Toyoda)*. Toyota: Toyota Motor Corporation.
- Yahagi, T. (1994). Kombiniensu sutoua sisutemu no kakushinsei (*The innovativeness of the convenience store system*). Tokyo: Nikkei Publishing Inc.
- Yamada, T. (2017). Shonin to shogyo soshiki (*Merchants and commercial organizations*). In M. Hirota, T. Yamada, T. Kiyama, T. Nagahiro, & R. Fujioka (Eds.), *Nihon shogyo-shi: Shogyo Ryutsu no hatten puroseshu wo toraeru (Japanese commercial history: Understanding the development process of commerce and distribution)*. Tokyo: Yuhikaku Publishing Co., Ltd.
- Yamagiwa, K. (1979). Sengo Nihon keizai no gorika katei to kaigin no yakuwari (*The rationalization process of the postwar Japanese economy and the role of Japan Development Bank*). In

- Chuo daigaku daigakuin nenpo daihachigo (*Bulletin of Graduate Studies, Chuo University, No.8*).
- Yamamoto, Y. (1993). Fujisawa takeo no kenkyu: Honda Soichiro wo sasaeta meihosayaku no himitsu (*Studies of Takeo Fujisawa: Secrets of the great aide who supported Soichiro Honda*). Tokyo: Kanoshobo Publishers.
- Yamana, I. (1992). Soniryu shohin kikakujutsu: Saisho saikeiryu koseino sekaihatsu no seihin ha ikanishite umaretaka (*The Sony Technique of Product Planning: How the 'smallest, lightest, highly functioning and world first' products are born*). Tokyo: Koshobo Publishers.
- Yamazaki, H. (1987). Nihon shosha-shi no ronri (*The logic of the history of Japanese trading companies*). In The University of Tokyo, Shakaikagaku kenkyu (*Journal of Social Science*), 39 (4).
- Yamazaki, H. (2007). Hokoku 3: Son Masayoshi (Sofutobanku) no kigyoka katsudo (*Report 3: The entrepreneurial activity of Masayoshi Son (Softbank)*). In Kyotsurondai: M&A, TOB nadono hairisuku bunya de katsuyakushita kigyoka gunzo no jitsuzo to kyozo, Okabe Hiroshi, Shima Tokuzo kara Son Masayoshi made (*Common subject: The real and false images of entrepreneurs who performed well in high-risk areas, such as M&A and TOB—From Hiroshi Okabe and Tokuzo Shima to Masayoshi Son*), Kigyoka kenkyu (*Entrepreneurial studies*), No. 4.
- Yamazaki, H. (2015). Toyoda-ke boshokujigyo no keieishi: Boshoku kara boshokki soshite jidosha he (*The business history of the Toyoda family's spinning and weaving business—From spinning and weaving to spinning and weaving machinery to automobile*). Tokyo: Bunshindo Publishing.
- Yanai, T. (2003). Issho kyuhai (*One win, nine defeats*). Tokyo: SHINCHOSHA Publishing Co., Ltd.
- Yasuoka, S. (1970). Zaibatsu keisei-shi no kenyu (*Studies of the history of zaibatsu formation*). Kyoto: Minervashobo.
- Yasuoka, S. (1978). Nakamigawa Hikojiro: Gyo nakaba ni taoreta risoshugi-teki kigyoka (*Hikojiro Nakamigawa: Idealistic entrepreneur who fell in the middle of his business*). In S. Yasuoka, Y. Nagasawa, T. Asano, Y. Mishima, & M. Miyamoto (Eds.), Nihon no kigyoka 1: Meiji-hen (*Japanese entrepreneurs 1: The Meiji edition*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Yasuoka, S. (1979). Zaibatsu no takaku-teki kogyoka: Nakamigawa Hikojiro to Shoda Heigoro (*The diversified industrialization of financial conglomerates: Hikojiro Nakamigawa and Heigoro Shoda*). In K. Nakagawa, H. Morikawa, & T. Yui (Eds.), Kindai Nihon keieishi no kisochishiki zohoban (*The enlarged edition of basic knowledge on modern Japanese management history*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Yonekura, S. (1998). Nihon seitetsugyo no kakushinsha: Nishiyama Yataro (Kawasaki seitetsu) (*Innovator of Japan's steel industry: Yataro Nishiyama (Kawasaki Steel)*). In H. Itami, T. Kagono, M. Miyamoto, & S. Yonekura (Eds.), Kesubukku Nihon kigyō no keiei kodo 4: Kigyoka no gunzo to jidai no ibuki (*Case book management behavior of Japanese companies 4: Images of entrepreneurs and the spirit of the times*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Yonekura, S. (2018). Matsushita Konosuke: Kimi nara dekiru kanarazu dekiru (Konosuke Matsushita: *You can do it for sure*). Kyoto: Minervashobo.
- Yoshida, T., et al. (1991). HONDA 360 STORY: Chiisana kyōjin, senkyuhyakurokujusannen kara senkyuhyakunanajuyonen (*HONDA 360 STORY: Small giant, 1963 to 1974*). Tokyo: Miki Press.
- Yui, T. (2008). Zaibatsu no shinka to sasutinabiriti: Yasuda zaibatsu no kyuseicho to zasetsu (*The evolution and sustainability of zaibatsu: The rapid growth and collapse of the Yasuda zaibatsu*). In T. Kikkawa, & M. Shimada (Eds.), Shinka no keieishi: Hito to soshiki no furekishibiriti (*The business history of evolution: The flexibility of people and organizations*). Tokyo: Yuhikaku Publishing Co., Ltd.
- Yui, T. (2010). Yasuda Zenjiro: Kaho-ha nettemate, (*Zenjiro Yasuda: Good things come to those who work out a strategy*). Kyoto: Minervashobo.
- Yui, T. (Ed.) (1978). Yuraku gojunen: Ashihara Yoshishige kaiko to tenbo (*Fifty years of grief and happiness: Yoshishige Ashihara's retrospection and vision*). Tokyo: Japan Business History Institute.
- Yui, T. (Ed.) (1986). Yasuda zaibatsu: Nihon zaibatsu keieishi (*The Yasuda zaibatsu: The business history of a Japanese zaibatsu*). Tokyo: Nikkei Publishing Inc.

Statistical Materials, Newspaper Articles, and Magazines

- Gendai-sangyo-shi no shogen (2) kombinitojo (chu) Suzuki Toshifumi seibun irebun Japan kaicho intabyu (*Testimony on modern industrial history (2): The advent of convenience stores, an interview with Toshifumi Suzuki, Seven Eleven Japan Chairman*), Shukan ekonomisuto (*Weekly Economist*), October 14, 2003.
- Gendai-sangyo-shi no shogen (9) Inamori Kazuo Kyosera meiyokaicho: Tsushin jiyuka (jo) senjin wo kitte shin-denden wo hataage (*Testimony on modern industrial history (9): Kazuo Inamori, Kyocera Corporation honorary chairman, on the liberalization of telecommunications, taking the lead in launching new common carriers*), Shukan ekonomisuto (*Weekly Economist*), December 2, 2003.
- Gendai-sangyo-shi no shogen (10) Inamori Kazuo Kyosera meiyokaicho: Tsushin jiyuka (ge) KDDI tanjo gappai hiwa wo akasu (*Testimony on modern industrial history (10): Kazuo Inamori, Kyocera Corporation honorary chairman, on the liberalization of telecommunications, revealing a secret story behind the consolidation of KDDI*), Shukan ekonomisuto (*Weekly Economist*), December 9, 2003.
- Gendai-sangyo-shi no shogen (20) Yanai Tadashi fasuto riteiringu kaicho: Meido in china no shogeki 'boku no shobai no sensei ha honkon no hito' (*Testimony on modern industrial history (20): Tadashi Yanai, Chairman of Fast Retailing—The impact of made in China, 'my business teacher is a person in Hong Kong'*), Shukan ekonomisuto (*Weekly Economist*), February 24, 2004.
- Gendai-sangyo-shi no shogen (21) Yanai Tadashi fasuto riteiringu kaicho: Meido in china no shogeki, chugoku de seisan kanri ni seikoshita riyu wo kataru (*Testimony on modern industrial history (21): Tadashi Yanai, Chairman of Fast Retailing—The impact of made in China, Telling the reason why he succeeded in production control in China*). Shukan ekonomisuto (*Weekly Economist*), March 2, 2004.
- HQ (web magazine of Hitotsubashi University) (2016). PEOPLE miryoku aru sotsugyosei, uniql0 no chugoku seisantaisai wo kodineto shi yakushin wo saseta sono keiken wo ikashi gurobaru jinjai wo ikusei, kabushikigaisha pasonarukeasisutemumu daihyotorishimariyakushacho Hasegawa Yasuhiko (*PEOPLE an attractive alumna who coordinated Uniql0's production system in China and supported its remarkable progress. Yasuhiko Hasegawa, President and CEO of Personal Care Systems Co., Ltd., who used that experience to develop global human resources*), Vol. 51. <https://www.hit-u.ac.jp/hq-mag/archive/pdf/hq51.pdf>
- JAL yosogai no seiko de chumoku, Inamori-shi no miigiude Morita JAL tokubetsukomon ga akasu ameba keiei no jissai (JAL gets attention for its 'unexpected' success: Morita, a special adviser to JAL and the right-hand man of Mr. Inamori, tells about the reality of amoeba management). Toyokeizai ONLINE (*Toyo Keizai ONLINE*), September 18, 2012.
- Jutakunan no Osaka (1)~(5) (*Osaka in Housing Crisis (1)~(5)*). Osaka mainichi shimbun (*Osaka daily newspaper*), October 30 to November 5, 1918.
- Kogai-densha kara mita Osaka (7) (*Osaka viewed from suburban trains (7)*). Osaka mainichi shimbun (*Osaka daily newspaper*), December 21, 1915.
- Mitsui Public Relations Committee, Echigoya tanjo to Takatoshi no shinshoho (The birth of Echigoya and Takatoshi's new business method). <https://www.mitsuipr.com/history/edo/02/>
- Mitsui Public Relations Committee, Mitsuike hassho no chi: Matsusaka (The Land of Mitsui's origin: Matsusaka). <https://www.mitsuipr.com/history/edo/01/>
- Nicchitsu kontserun no kaibo (*Anatomy of Nichchitsu Konzern*). Daiamondo (*Diamond*), July 1, 1938.
- Nissan kontserun no doko (*Nissan Konzern's Trends*). Daiamondo (*Diamond*), February 11, 1935.
- Osaka no kogai-densha (3) (*Suburban trains in Osaka (3)*). Chuo Shimbun (*Central newspaper*), September 17, 1913.
- Fast Retailing. Kaishajoho (*Company information*). <https://www.fastretailing.com/jp/about/>
- Panasonic Corporation. Kigyojoho, rekishi, shashi (*Company information, history and corporate history*). <https://holdings.panasonic.jp/corporate/about/history/chronicle.html>

- Shibusawa Eiichi Memorial Foundation. Shibusawa Eiichi (*Eiichi Shibusawa*). <https://www.shibusawa.or.jp/english/>
- SoftBank Group Corp. Kigyojoho, enkaku (*Company information and history*). Index (items, people's names, company names, and organizational names, etc.). <https://www.softbank.jp/corp/aboutus/profile/history/>
- Toshi no bocho to kogaidentestu (1)~(10) (*The expansion of cities and suburban railway lines (1) to (10)*). Kokumin shimbun (*National newspaper*), October 1 to 13, 1926.
- Toshi-seikatsu no fuan (2) Osaka-shi no jyutaku mondai (*Anxiety in urban life (2): Housing issues in Osaka City*). Osaka jiji shinpo (*Osaka daily newspaper*), January 21, 1919.
- Toshi-seikatsu no fuan (4) Osaka-shi no jyutaku mondai (*Anxiety in urban life (4): Housing issues in Osaka City*). Osaka jiji shinpo (*Osaka daily newspaper*), January 23, 1919.
- Toshi-seikatsu no fuan (16) Osaka-shi no jyutaku mondai (*Anxiety in urban life (16): Housing issues in Osaka City*). Osaka jiji shinpo (*Osaka daily newspaper*), February 3, 1919.
- Toyota-jidosha ha gyoseki koten (*Toyota Motor's business turns around*). Daiamondo (*Diamond*), March 11, 1951.

Name Index

A

- Aikawa, Yoshisuke (Yoshisuke Aikawa), 97, 148, 159, 217, 262
Akiyama, Takichi (Takichi Akiyama), 122
Amenomiya, Keiji (Keiji Amenomiya), 68, 70
Aoyama, Masaji (Masaji Aoyama), 226
Asabuki, Eiichi (Eiichi Asabuki), 60
Asada, Masabumi (Masabumi Asada), 59
Asano, Soichiro (Soichiro Asano), 40, 63–70, 75–77, 87, 88, 261
Asano, Toshimitsu (Toshimitsu Asano), 54, 68
Asawa, Saburo (Saburo Asawa), 166
Ashihara, Yoshishige (Yoshishige Ashihara), 106, 107, 116, 117

C

- Carnegie, Andrew (Andrew Carnegie), 142
Christensen, Clayton M. (Clayton M. Christensen), 1–4, 258–259, 262

D

- Deyon, Pierre (Pierre Deyon), 37
Dodge, Joseph M. (Joseph M. Dodge), 132
Doi, Michio (Michio Doi), 79
Doko, Kikujiro (Kikujiro Doko), 201
Doko, Tomi (Tomi Doko), 201
Doko, Toshio (Toshio Doko), 97, 201–211, 217, 262

E

- Egashira, Tsuneharu (Tsuneharu Egashira), 29
Eguchi, Sadae (Sadae Eguchi), 59

F

- Fujisawa, Takeo (Takeo Fujisawa), 97, 181–198, 262
Fujita, Denzaburo (Denzaburo Fujita), 79
Fujiwara, Ginjiro (Ginjiro Fujiwara), 49
Fujiyama, Raita (Raita Fujiyama), 49, 50
Fukuzawa, Hyakusuke (Hyakusuke Fukuzawa), 46
Fukuzawa, Momosuke (Momosuke Fukuzawa), 109, 113, 117
Fukuzawa, Yukichi (Yukichi Fukuzawa), 46, 55, 58, 60, 109
Furukawa, Ichibei (Ichibei Furukawa), 45, 77, 87, 142

G

- Gerschenkron, Alexander (Alexander Gerschenkron), 85
Godai, Tomoatsu (Tomoatsu Godai), 75, 79

H

- Harada, Chinji (Chinji Harada), 59
Hasegawa, Yasuhiko (Yasuhiko Hasegawa), 246, 247
Hashimoto, Juro (Juro Hashimoto), 45, 95, 165, 182
Hatano, Shogoro (Shogoro Hatano), 49
Hayakawa, Tokuji (Tokuji Hayakawa), 181
Hayashi, Shuji (Shuji Hayashi), 170, 236
Hibi, Osuke (Osuke Hibi), 49
Hida, Jutaro (Jutaro Hida), 150
Hiraga, Satoshi (Satoshi Hiraga), 49
Hirakawa, Hitoshi (Hitoshi Hirakawa), 214
Hita, Jutaro (Jutaro Hita), 150

Honda, Soichiro (Soichiro Honda), 97, 173, 181–198, 262
 Hori, Shin (Shin Hori), 107

I

Ibuka, Masaru (Masaru Ibuka), 97, 181–198, 262
 Ichimada, Hisato (Hisato Ichimada), 162
 Ide, Daijiro (Daijiro Ide), 114, 115, 117
 Idemitsu, Sazo (Sazo Idemitsu), 97, 148–159, 161, 162, 217, 262
 Iida, Makoto (Makoto Iida), 232
 Ikeda, Kikunae (Kikunae Ikeda), 120–121, 123, 217
 Ikeda, Shigeaki (Shigeaki Ikeda), 49
 Ikeo, Yoshizo (Yoshizo Ikeo), 107, 115
 Inamori, Kazuo (Kazuo Inamori), 224–234, 238, 247, 260, 264
 Inoue, Junnosuke (Junnosuke Inoue), 94
 Inoue, Kaoru (Kaoru Inoue), 46, 142, 143
 Inukai, Tsuyoshi (Tsuyoshi Inukai), 95
 Ishibashi, Shojiro (Shojiro Ishibashi), 181
 Ishikawa, Tejiro (Tejiro Ishikawa), 123
 Ishizaka, Taizo (Taizo Ishizaka), 207
 Isono, Hakaru (Hakaru Isono), 60
 Itami, Hiroyuki (Hiroyuki Itami), 161, 163, 167, 168, 182, 201, 226
 Ito, Osamu (Osamu Ito), 164
 Iue, Toshio (Toshio Iue), 181
 Iwade, Sobei (Sobei Iwade), 70
 Iwanaga, Shoichi (Shoichi Iwanaga), 59
 Iwasaki, Hisaya (Hisaya Iwasaki), 57
 Iwasaki, Yanosuke (Yanosuke Iwasaki), 40, 44, 45, 50, 53–61, 77, 87, 261
 Iwasaki, Yataro (Yataro Iwasaki), 40, 50, 53–61, 75, 76, 88, 261

K

Kagono, Tadao (Tadao Kagono), 163, 225, 226, 228, 230
 Kashiyama, Junzo (Junzo Kashiyama), 237
 Kasuya, Makoto (Makoto Kasuya), 23, 43, 47, 48, 50
 Kato, Takaaki (Takaaki Kato), 60
 Kawai, Nobutaro (Nobutaro Kawai), 205
 Kawasaki, Hachiemon (Hachiemon Kawasaki), 67, 124, 125
 Keynes, John M. (John M. Keynes), 95
 Kikawada, Kazutaka (Kazutaka Kikawada), 116, 117
 Kimura, Kusuyata (Kusuyata Kimura), 59

Kimura, Masato (Masato Kimura), 79, 81
 Kirishima, Shuichi (Shuichi Kirishima), 59
 Kirzner, Israel M. (Israel M. Kirzner), 1–4
 Kobayashi, Ichizo (Ichizo Kobayashi), 49, 97, 99–107, 217, 262
 Kodama, Ichizo (Ichizo Kodama), 129
 Kondo, Renpei (Renpei Kondo), 59
 Konoe, Fumimaro (Fumimaro Konoe), 105
 Konoike, Masashige (Masashige Konoike), 11, 13, 16
 Konoike, Munetoshi (Munetoshi Konoike), 12, 14, 16
 Konoike, Yukimune (Yukimune Konoike), 11–14, 16
 Konoike, Yukitomi (Yukitomi Konoike), 16
 Konoike, Zen'emon (Zen'emon Konoike), 8, 11–16, 33, 88, 261

L

Lee, Mihwa (Mihwa Lee), 241

M

Maruta, Hidemi (Hidemi Maruta), 59
 Masuda, Takashi (Takashi Masuda), 47
 Matsukata, Masayoshi (Masayoshi Matsukata), 39, 47
 Matsunaga, Yasuzaemon (Yasuzaemon Matsunaga), 97, 99, 107, 109–118, 139, 166, 217, 262
 Matsushita, Ichirozaemon (Ichirozaemon Matsushita), 67
 Matsushita, Konosuke (Konosuke Matsushita), 97, 169–179, 217, 229, 262
 Mendels, Franklin (Franklin Mendels), 37
 Mikimoto, Kokichi (Kokichi Mikimoto), 119
 Mimura, Kunpei (Kunpei Mimura), 59
 Minomura, Rizaemon (Rizaemon Minomura), 46
 Mitarai, Takeshi (Takeshi Mitarai), 181
 Mitsui, Shigetoshi (Shigetoshi Mitsui), 20
 Mitsui, Shuho (Shuho Mitsui), 19, 20
 Mitsui, Takaharu (Takaharu Mitsui), 21
 Mitsui, Takahira (Takahira Mitsui), 21, 23
 Mitsui, Takatomi (Takatomi Mitsui), 21
 Mitsui, Takatoshi (Takatoshi Mitsui), 8, 19–24, 33, 88, 261
 Mitsui, Takayasu (Takayasu Mitsui), 19
 Mitsui, Toshitsugu (Toshitsugu Mitsui), 20, 21
 Miwa, Ryoichi (Ryoichi Miwa), 38, 53, 94
 Miyake, Hiizu (Hiizu Miyake), 120
 Miyaki, Otoyao (Otoyao Miyaki), 227

Miyamoto, Matao (Matao Miyamoto), 7,
12–16, 20, 23, 25, 33–34, 54, 68, 73, 78,
80, 86, 96, 163, 226, 230
Mizuhara, Masamichi (Masamichi Mizuhara),
20, 25–31
Mizutani, Rokuro (Rokuro Mizutani), 59
Mori, Nobuteru (Nobuteru Mori), 137
Morikawa, Hidemasa (Hidemasa Morikawa),
43, 44, 48, 49, 53, 58, 61, 68, 85, 139,
143, 166, 171, 191, 196
Morita, Akio (Akio Morita), 97, 181–198, 232,
262
Murakami, Tei (Tei Murakami), 49
Muto, Sanji (Sanji Muto), 49
Mutsuoka, Shuzo (Shuzo Mutsuoka), 206

N

Nagasawa, Yasuaki (Yasuaki Nagasawa),
54–58, 68
Nakagawa, Keiichiro (Keiichiro Nakagawa),
53, 67, 68, 86, 143, 191, 196
Nakai, Fumi (Fumi Nakai), 31
Nakai, Genzaburo (Genzaburo Nakai), 31
Nakai, Genzaemon (Genzaemon Nakai), 7, 8,
25–31, 33, 88, 261
Nakai, Ichizaemon (Ichizaemon Nakai), 31
Nakai, Mitsuharu (Mitsuharu Nakai), 27
Nakai, Mitsuhiro (Mitsuhiro Nakai), 28
Nakai, Mitsumasa (Mitsumasa Nakai), 28, 31
Nakai, Mitsumoto (Mitsumoto Nakai), 28
Nakai, Mitsutada (Mitsutada Nakai), 28
Nakai, Mitsutake (Mitsutake Nakai), 27, 28, 31
Nakai, Mitsutomo (Mitsutomo Nakai), 31
Nakai, Mitsuyasu (Mitsuyasu Nakai), 28
Nakai, Riyo (Riyo Nakai), 31
Nakai, Seijiemon Takenari (Seijiemon Takenari
Nakai), 31
Nakamigawa, En (En Nakamigawa), 46
Nakamigawa, Hikojiro (Hikojiro
Nakamigawa), 43–51
Nakamura, Kiyoshi (Kiyoshi Nakamura), 171,
174–179, 195
Nakamura, Seishi (Seishi Nakamura), 48,
139–141
Nakano, Tomonori (Tomonori Nakano), 137
Nakauchi, Isao (Isao Nakauchi), 236
Nanbu, Kyugo (Kyugo Nanbu), 59
Nishikawa, Noboru (Noboru Nishikawa), 15
Nishiyama, Yataro (Yataro Nishiyama), 97,
161, 217, 262
Noguchi, Shitagau (Shitagau Noguchi), 97,
124, 137–148, 159, 217, 262

O

Oda, Nobunaga (Nobunaga Oda), 19
Odaka, Atsutada (Atsutada Odaka), 73
Ogawa, Susumu (Susumu Ogawa), 242
Ogawa, Zenkichi (Zenkichi Ogawa), 59
Ōkochi, Masatoshi (Masatoshi Okochi), 137
Oku, Saburobei (Saburobei Oku), 70
Okuda, Masaka (Masaka Okuda), 79
Ōkuma, Shigenobu (Shigenobu Ōkuma), 39, 54
Okumura, Kiwao (Kiwao Okumura), 115
Ōkura, Kihachiro (Kihachiro Ōkura), 70
Ōmori, Hiroshi (Hiroshi Ōmori), 113, 175, 179
Ōmori, Shosoku (Shosoku Ōmori), 166
Ōno, Taiichi (Taiichi Ōno), 134
Ōtagaki, Shiro (Shiro Ōtagaki), 106, 107

P

Perry, Matthew C. (Matthew C. Perry), 38, 96
Piketty, Thomas (Thomas Piketty), 128

R

Raynor, Michael E. (Michael E. Raynor), 259

S

Saji, Keizo (Keizo Saji), 181
Sakudo, Yotaro (Yotaro Sakudo), 20, 25, 26
Sasaki, Tadashi (Tadashi Sasaki), 251
Schumpeter, Joseph A. (Joseph
A. Schumpeter), 1–4, 25, 146, 147
Semmoto, Sachio (Sachio Semmoto), 232
Seoka, Makoto (Makoto Seoka), 19, 20, 25
Shibusawa, Eiichi (Eiichi Shibusawa), 40, 55,
69, 70, 73–83, 87, 88, 229, 261
Shidehara, Kijuro (Kijuro Shidehara), 105
Shigeno, Yasutsugu (Yasutsugu Shigeno), 55
Shimada, Masakazu (Masakazu Shimada), 66,
73, 75, 77, 78
Shimamoto, Minoru (Minoru Shimamoto), 226,
227, 229
Shinto, Hisashi (Hisashi Shinto), 232
Sho, Seijiro (Seijiro Sho), 59
Shoda, Heigoro (Heigoro Shoda), 56, 59–61
Son, Masayoshi (Masayoshi Son), 238, 249,
264
Suehiro, Akira (Akira Suehiro), 213–215
Suenobu, Michinari (Michinari Suenobu), 59
Sugiyama, Kazuo (Kazuo Sugiyama), 66, 67,
139
Suzuki, Chuji (Chuji Suzuki), 121, 125
Suzuki, Naka (Naka Suzuki), 122

Suzuki, Saburo (Saburo Suzuki), 121, 125
 Suzuki, Saburosuke, II (Saburosuke Suzuki II),
 97, 119–125, 217, 262
 Suzuki, Teru (Teru Suzuki), 122
 Suzuki, Tokita (Tokita Suzuki), 189
 Suzuki, Toshifumi (Toshifumi Suzuki), 224,
 235–242, 247, 264
 Suzuki, Umeshiro (Umeshiro Suzuki), 49

T

Takahashi, Korekiyo (Korekiyo Takahashi), 95
 Takaoka, Mika (Mika Takaoka), 235, 239–241
 Takechi, Toshimi (Toshimi Takechi), 59
 Tanaka, Gentaro (Gentaro Tanaka), 79
 Tanaka, Hisashige (Hisashige Tanaka), 47, 50
 Tanaka, Ichibei (Ichibei Tanaka), 79
 Tanaka, Kazuhiro (Kazuhiro Tanaka), 81, 229,
 230
 Tanaka, Shinzo (Shinzo Tanaka), 70
 Teratani, Takeaki (Takeaki Teratani), 68, 70
 Tokugawa, Akitake (Akitake Tokugawa), 28,
 46, 74
 Tokugawa, Yoshinobu (Hitotsubashi)
 (Yoshinobu Tokugawa (Hitotsubashi)),
 74
 Toyoda, Aiko (Aiko Toyoda), 129, 130
 Toyoda, Kiichiro (Kiichiro Toyoda), 97,
 127–135, 217, 262
 Toyoda, Risaburo (Risaburo Toyoda), 128,
 129, 131
 Toyoda, Sakichi (Sakichi Toyoda), 119,
 127–130
 Toyokawa, Ryohei (Ryohei Toyokawa), 59
 Tsuda, Koji (Koji Tsuda), 49

U

Uchida, Kosaku (Kosaku Uchida), 59
 Uchiike, Renkichi (Renkichi Uchiike), 150
 Udagawa, Masaru (Masaru Udagawa), 8, 48,
 137, 142–147, 168

Uemura, Masahiro (Masahiro Uemura), 22
 Ugaki, Kazushige (Kazushige Ugaki), 141
 Uryu, Shin (Shin Uryu), 59
 Ushio, Jiro (Jiro Ushio), 232

W

Wada, Kazuo (Kazuo Wada), 127, 128,
 130–132, 134
 Wada, Toyoji (Tyoji Wada), 49
 Wheeler, Foster (Foster Wheeler), 205

Y

Yada, Seki (Seki Yada), 49
 Yamada, Takehisa (Takehisa Yamada), 29
 Yamamoto, Tatsuo (Tatsuo Yamamoto), 60
 Yamanaka, Shinroku (Shinroku Yamanaka),
 11, 16
 Yamauchi, Sataro (Sataro Yamauchi), 202
 Yamazaki, Hiroaki (Hiroaki Yamazaki), 15, 43,
 86, 127–128, 163, 250–253
 Yanagi, Sotaro (Sotaro Yanagi), 49
 Yanai, Hitoshi (Hitoshi Yanai), 245
 Yanai, Tadashi (Tadashi Yanai), 238, 245–254,
 264, 224
 Yasuda, Hajime (Hajime Yasuda), 65
 Yasuda, Teruko (Teruko Yasuda), 65
 Yasuda, Zen-etsu (Zen-etsu Yasuda), 66
 Yasuda, Zenjiro (Zenjiro Yasuda), 40, 63–70,
 87, 88, 261
 Yasuda, Zennosuke (Zennosuke Yasuda), 65
 Yasuda, Zenzaburo (Zenzaburo Yasuda), 65, 66
 Yasuoka, Shigeaki (Shigeaki Yasuoka), 23, 44,
 50, 51, 54, 60, 68
 Yokoyama, Michio (Michio Yokoyama), 116,
 117
 Yonekura, Seiichiro (Seiichiro Yonekura), 163,
 173, 226
 Yoshikawa, Taijiro (Taijiro Yoshikawa), 59
 Yui, Tsunehiko (Tsunehiko Yui), 53, 64–70,
 107, 128–131, 134, 143, 182, 191, 196

Subject Index

A

Ad Hoc Administrative Reform Promotion Council, 209
Ad Hoc Administrative Research Council, 209
Ajinomoto, 119–125, 217
American Depositary Receipts (ADRs), 191
American Honda Motor, 190, 191
Amoeba management, 229, 233, 234
Anglo-Iranian Oil Company, 149
Aozora Bank, 252
ARM Holdings, 254
Art Shokai, 183
Asahi Beer, 119
Asahi Bemberg Silk Thread Company, 140
Asahi Kasei, 138, 140
Asahi Silk Weaving, 140
Asano Cement, 69, 70
Asano Chuya Bank, 69
Asano Family Company, 69
Asano Shipyard, 69
Asano zaibatsu, 69, 70
Asian Petroleum, 151
ASPESI Japan, 249
Atami meeting, 178, 179
Automatic shuttle-changing device, 129, 130
Azumi Electric, 139

B

Bank of Chosen, 141
Bank of Japan, 39, 49, 60, 64–67, 109, 162
Bank of Tokyo, 158
Bell Telephone Laboratories, 187
Besshi Copper Mine, 8
Big Three Merchant Families, 12, 25, 26

Bloom Energy Japan, 254
Breakthrough innovation, 2–4, 7, 8, 23, 30, 88, 119–125, 135, 147, 217, 221, 257–264
Bridgestone Tire, 181
British P&O (Peninsular and Oriental) Steam Navigation Company, 54
Bulova, 190, 197
Businessland Japan Co., 251

C

Calling, 205
Canon, 181, 251, 259
Capitalist manager, 238
Catch-up industrialization, 213–215
Central Research Institute of Electric Power Industry (CRIEPI), 117
Cerberus, 252
Chain operation, 237
Chichibu Cement, 203
China Idemitsu Kosan, 155, 156
Chisso Corporation, 139, 142
Chochitsu Kayaku, 138
Chosen Biru, 138
Chosen Chisso, 138
Chosen Coal Industries, 138
Chosen Colonial Bank, 141
Chosen Kogyo Kaihatsu, 138
Chosen Maito, 138
Chosen Suisan Kogyo, 138
Choshinko Suiden Company, 138
Chubu Electric Power, 106, 116
Chugoku Electric Power, 106
Chuo Doboku, 138
Collective ownership, 23, 45

Comdex, 251
 Commercial Law Office, 74
 Commoditization, 258, 262
 Consumption revolution, 170, 171
 Creative destruction, 2

D

Daiei, 236, 239
 Dai-Ichi Bank, 76, 77, 87, 165, 166, 206
 Dai-Ichi Kangyo Bank, 251
 Daimyo financing, 12, 14, 16, 25
 Daini Denden Kikaku, 231
 Dai-Nippon Beer, 119
 DAT Motors, 145
 DDI Corporation (DDI), 225, 231–233
 A distribution keiretsu, 172, 173, 178
 Denden Kosha, *see* Nippon Telegraph and Telephone Public Corporation (Denden Kosha)
 Denen Toshi Co., 100
 Depopulation society, 222
 Diamond, 132, 138, 174
 Disruptive innovation, 3, 4, 221, 257–260, 262–264
 Dissolution of zaibatsu, 171, 195
 Distribution revolution, 170, 172, 236, 237
 Dodge Line, 132, 221
 Dominant strategy, 238–240
 Double-entry bookkeeping, 15–16, 23

E

Early modern, 29, 33, 34
 East Asian Miracle, 215, 216
 Echigoya, 19–21
 Echigoya Hachirobei-Mitsui Jiroemon, 20
 Economy of scale, 142
 Economy of scope, 142
 Economy of speed, 142
 Edo business method, 20–22
 Edo Zumi, 11–13
 Electric Power Development Company (J-Power), 146
 Emerging konzern, 138, 142
 Escher Wyss, 202, 203, 206
 ETNA Japan, 205
 External effect, 195

F

Fairchild Corporation, 228
 Fast Retailing, 245, 246, 248–250

Federation of Electric Power Companies of Japan (FEPC), 114
 Feudal system, 34, 88
 Fifth Bank, 69
 Financial zaibatsu, 45, 63, 67, 70, 87
 First mover advantage, 257, 258, 260, 262, 264
 First National Bank, 74, 76
 Five-year plan for Manchurian industrial development, 145, 146
 Ford system, 133
 Four major zaibatsu, 64, 137
 Franchise (system), 238, 240–241
 FRL Korea Co., 249
 Fuji Iron & Steel Company, 162, 165, 166
 Fujitsu, 251
 Fukagawa Cement Works, 69
 Fukuhaku Electric Railway, 109, 110
 Fukumatsu Shokai, 109
 Fukushima Daiichi Nuclear Power Plant accident, 222
 Furukawa zaibatsu, 45

G

Galapagos syndrome, 258, 262
 Gapponshugi, 80–83
 GE, 203
 General zaibatsu, 45, 63, 70
 GHQ, 116, 177
 Globalization, 190, 223
 “God of management”, 173, 174, 179
 “God of retail”, 235, 239, 242
 Godo Tochi, 138
 Gould-Coupler Company, 143
 Great East Japan Earthquake, 222
 Group 1984, 210, 211
 GU, 249

H

Haber-Bosch process, 140
 Hakata Electric Light Railway, 111
 Hankyu, 49, 99, 102, 105–107
 Hanshin, 102, 103, 105
 Harima Shipbuilding & Engineering, 206, 207
 Heisei financial crisis, 221
 Higashi-Honganji, 47, 48
 Hitachi Denryoku, 138
 Hitachi Home Appliance Sales, 172
 Hitachi-maru, 60
 Hitachi Seisakusho, 138
 Hitotsubashi University, 77
 Hoden Oil Company, 69

Hokkaido Electric Power Company, 106
 Hokkaido Takushoku Bank, 40, 221
 Hokuriku Electric Power Company, 106
 Honda Motor Co., Ltd., 184–186, 189, 191,
 192, 197
 Honda R&D Co., Ltd., 198
 Horaisha, 16
 Hudson, 251
 Hypothesis-testing ordering, 241–242

I

Ichio London, 57
 Idemitsu Kosan, 148–151, 154, 155, 157, 158,
 161, 162
 Idemitsu Shokai, 150–155, 158
 IDO Corp, 232
 Iesadame Kiroku Oboe, 12
 Imabashi-Konoike Family, 11, 12
 Inamori Foundation, 230
 Incentive theory, 240, 241
 Incremental innovation, 2–4, 88, 93–97,
 127–135, 216, 217, 257, 258, 262
 Industrial Bank of Japan, 40, 76, 141
 Industrial revolution, 1, 3, 39, 40, 74, 93, 167
 Industrial zaibatsu, 63, 68–70, 87
 Information and Communication Technology
 (ICT), 257–259, 262
 Innovator's Dilemma, 3, 258
 Ino Kiichiro Shoten, 122
 Inter-Han market, 7
 Interop, 251
 Intra-Han market, 7
 Investments invite more investments, 70
 Investor manager, 40, 70, 73–83, 87, 88, 261
 Ishikawajima Brazil Shipyard, 206
 Ishikawajima Calling, 205
 Ishikawajima-Harima Heavy Industries, 206,
 208
 Ishikawajima Heavy Industries, 203–208
 Ishikawajima Shibaura Turbine, 203–204, 207,
 208
 Ishikawajima Shipyard, 76, 202–204, 207
 Itami-Konoike Family, 11
 Ito-Yokado, 238, 241, 242
 IT revolution, 253
 Iwaki Coal Mine Company, 69

J

Japan Airlines, 76, 225, 229, 233–234
 Japan as Number One, 96

Japan Business Federation (Keidanren), 201,
 207
 Japan Development Bank, 165
 Japanese-style management, 20, 26, 82, 97,
 163, 223, 257, 260, 263, 264
 Japan Highway Public Corporation, 146, 232
 Japan Machinery Research Institute, 183
 Japan Measuring Instruments, 182
 Japan National Railways, 232
 Japan Nitrogenous Fertilizer Company, 139
 Japan Petroleum Resources Development, 145
 Japan Post Steamship Company, 54
 Japan SME Political Federation, 146
 Japan Softbank, 250, 251, 253
 JFE, 161
 Joshin Denki, 251
 Just-In-Time, 134

K

Kaizen (improvement), 135, 217, 262
 Kamaishi Iron Works, 86
 Kansai Electric Distribution, 116
 Kansai Electricity, 110, 113
 Kansai Electric Power, 106, 107, 116
 Kanto Electric Distribution, 116
 Kao Corporation, 122
 Kashiyama, 237
 Kawasaki Dockyard, 86, 162
 Kawasaki Heavy Industries, 162, 195
 Kawasaki-Matsukata manufacturing zaibatsu,
 45
 Kawasaki Meihatsu Kogyo, 195
 Kawasaki Steel Corporation, 161, 162,
 165–168
 KDD, 232
 KDDI, 231–233, 254
 Keihan Electric Railway Company, 76
 Keio Gijuku, 45, 46, 48, 49, 59, 60, 100, 109
 Kingston Technology, 251
 Kobayashi Tomijiro Shoten, 119
 Kobe Kogyo, 196
 Kobe Steel, 86, 162, 163, 165, 166, 189, 198
 Kobu Railway Company, 68
 Kokusai Denshin Denwa, 232
 Konoike Bank, 16
 Konoike Family, 8, 11–17, 25
 Konoike Gomei Kaisha, 16
 Konzern, 44, 137–148
 Korea Electric Power Corporation (KEPCO),
 254
 Koriyama Lighting Company, 139

Kuhara Mining Company, 144
 Kuhara zaibatsu, 144
 Kyocera Corporation, 226, 229, 231
 Kyocera Philosophy, 230, 233
 Kyodo Gyogyo, 138
 Kyodo Unyu Kaisha (KUK), 55, 56
 Kyoritsu Company, 144
 Kyosai Gohyakumei Company, 68
 Kyoto Ceramic (Kyocera), 225–230, 232–234
 Kyushu Electricity, 109–111
 Kyushu Electric Light Railway, 110, 111
 Kyushu Electric Power, 106

L

Latecomer advantage, 257, 258, 262
 Lehman Brothers, 222
 Lion Corporation, 119
 Logistics zaibatsu, 45
 Long-Term Credit Bank of Japan, 161, 221
 Long-term employment, 82, 263
 Lost Decade, 2, 3, 161, 211, 221, 222, 231, 241, 260
 Lost three decades, 2, 4
 Lost two decades, 2, 4
 Lotte Shopping, 249

M

Made in China, 246–248
 Management nationalism, 85
 Manchuria Heavy Industries Development (Mangyo), 138, 145–147
 Manchuria Idemitsu Kosan, 155
 Manchurian Oil (Manseki), 154
 Manufacturing-industry zaibatsu, 164
 Marcus Samuel Company, 69
 Marusan Shokai, 109
 Marusho Motor Co., Ltd., 197
 “Matsushita Electric Housewares Manufacturing Works”, 175, 176
 “Matsushita Electric (Industrial company)”, 169, 172–174, 176–179, 182
 “Matsushita Electronics”, 226, 227
 Matsushita Institute of Government and Management (MIGM), 179
 “Matsushita’s way of doing business”, 173
 Mechanism of restraining investments, 223
 Meguro-Kamata Electric Railway, 100
 Meidi-Ya Co., Ltd., 60
 Meiji Life Insurance Company, 60
 Meritocracy, 83, 263
 Minamata Disease, 139

Mining zaibatsu, 45
 Minoh-Arima Electric Railway, 100, 102–104
 Mitsubishi (family and zaibatsu), 44, 45, 50, 53–61, 63, 68, 77, 87, 124, 137, 140, 141, 145, 147, 172
 Mitsubishi Bank, 189, 198
 Mitsubishi Company, 57
 Mitsubishi Electric Corporation, 56
 Mitsubishi Estate Co., Ltd., 57
 Mitsubishi Goshi Kaisha, 57, 59, 60
 Mitsubishi Heavy Industries, 56
 Mitsubishi Motors Industries, 56
 Mitsui (family and zaibatsu), 23, 43, 45, 100
 Mitsui Bank, 44, 46–50, 100, 128, 187, 198
 Mitsui & CO., LTD., 47–49, 123, 129, 143
 Mitsui Echigo-ya Drapery Shop (Echigo-ya), 19–21
 Mitsui Family Association, 50
 Mitsui Omotokata, 23, 24
 Mitsukawa Company, 54
 Mitsukoshi, 49, 236
 Miyaki Electric MFG. Co., Ltd., 226
 MONET Technologies, 254
 Moral-economy unity theory, 74
 Mori Konzern, 137
 Morinaga Seika, 119
 Mr. Administrative reform, 201–211
 Mr. Doko of dried sardines, 210

N

Nagasaki Shipyard, 56, 59, 60
 Nagasaki Shipyard and Machinery Works [NSMW], 56
 Nagase Shoten, 122
 Nagoya Electric Light Company, 110
 Nakai Family, 8, 25–31
 Nanbei Suisan, 138
 Nankai, 103
 NASDAQ Japan, 252
 National (Store) Association, 172
 NEC, 251
 New economy, 223
 New Japanese-style management, 82, 83, 263, 264
 New Japan Nitrogenous Fertilizer Corporation, 142
 New York Stock Exchange, 191
 Nicchitsu Kayaku, 138
 Nicchitsu Kogyo, 138
 Nicchitsu Konzern, 138, 142, 147
 Nicchitsu Shoken, 138
 Nihon Carbide Shokai, 139

Nihon Chuya Bank, 69
 Nihon Gaishi, 225
 Nihon Godo Kosen, 138
 Nihon Hatsusoden, 115
 Nihon Hogeï, 138
 Nihon Kogyo, 182
 Nihon Ko-on Kogyo, 182
 Nihon Sangyo, 115, 137, 138, 144–146, 148
 Nihon Shokuryo Kogyo, 138
 Nihon Tanko, 138
 Nine-electric power company system, 99, 106
 Nippon Bemberg Silk Thread, 140
 Nippon Brick Manufacturing Company, 76
 Nippon Credit Bank, 221, 252
 Nippon Denko, 137
 Nippon Denryoku, 115
 Nippon Kangyo Bank, 40, 76
 Nippon Kokan, 162
 Nippon Koku Yuso Kaisha, 76
 Nippon Life Insurance Company, 16
 Nippon Oil Co., Ltd., 69
 Nippon Railroad, 76
 Nippon Soda, 137
 Nippon Steel, 259
 Nippon Steel Works, 86
 Nippon Telecom, 253
 Nippon Telegraph and Telephone Public Corporation (Denden Kosha), 118, 231–233, 253
 Nippon Yusen Kaisha (NYK Line), 49, 56, 59, 60, 76
 Nissan Gomu, 138
 Nissan Kisen, 138
 Nissan konzern, 138, 142–147
 Nissan Motor Co., Ltd., 145
 Nissho-Marû Incident, 149, 158
 Nisso (Nippon Soda) konzern, 137
 Nomura zaibatsu, 45
 Novell, 251
 NTT, 231–233, 253
 NTT DoCoMo, 233, 253, 254

O

Ogori Shoji, 245
 Oil Distribution Public Corporation, 158
 Oji Paper Company, 76
 Okinawa Electric Power Company, 116
 Ôkura zaibatsu, 45
 Old-type Japanese-style management, 263
 Omi merchant, 8, 25–26, 29
 Onward Kashiya, 237
 Organized entrepreneurial activity, 86
 Osaka Electric Light Co., 174, 175
 Osaka Shosen, 69

Osaka Spinning Company (Osaka Boseki Kaisha), 76
 Osaka Tekkosho, 138
 Osaka Trade and Exchange Inc., 16
 Osaka Warehouse, 16

P

Pacific Steamship Company, 54
 Panasonic, 173, 176, 177
 Personal Care Systems Co., Ltd., 246
 Philips, 226
 Photo Chemical Laboratory, 182
 PHP Institute, Inc., 228, 230
 Platt, 130, 131
 Postal Steamship Mitsubishi Company, 57
 Prefectural Agricultural and Industrial banks, 40
 Pre-modern, 33, 34
 Pre-packaging system, 237
 Primitive accumulation, 39
 Principle of equal opportunity for honor students, 165–167
 Product-by-product merchandise management, 241–243
 Proto-industrialization, 37
 Public Service Committee, 107

R

Radical innovation, 2
 Reorganization of electric power business, 113, 115–117
 RIKEN konzern, 137
 Rising Sun Oil Company, 69
 Rosseti, 254
 Ryoden Corporation, 172

S

Samurai scholar, 58
 Sanjushi Bank, 16
 Sanwa Bank, 16
 Sanyo Electric Company, 172
 Sanyo Railway (SR), 46, 49, 60
 Sapporo Beer, 76, 119
 SB Energy, 254
 Scientific management, 110–112, 116
 Secom, 232
 Second defeat in the war, 161
 Seiko Watch Corporation, 259
 Self-service, 237
 Seniority promotion system, 82, 83, 263
 Seven & i Holdings Co., Ltd., 238
 Seven-Eleven Japan, 238–242

- Sharp Corporation (Hayakawa Electric Industry Company), 181
 Shell, 151
 Shell Oil, 69
 Shibaura Seisakusho, 50, 142, 143, 203, 207
 Shibusawa Eiichi Memorial Foundation, 73, 75, 77–79, 82
 Shikoku Electric Power, 106
 Shinko [Sinheung] Tetsudo, 138
 Shipbuilding scandal, 205
 Shiseido, 119
 Shofu Industries, 225–227
 Showa Denko, 137
 Showa Fertilizer, 137
 Showa financial crisis, 221
 Showa Steel, 166
 Siemens, 139
 Sochiku's Will, 23
 Social entrepreneur, 74, 77–78, 146, 147
 Softbank, 245, 251–254
 Softbank Group, 252, 254
 Softbank Mobile, 254
 Sogi Electric, 139
 Sony, 181–198, 227, 232, 251, 259
 Sony Corporation of America, 190
 Southland, 238
 South Manchurian Railway (Mantetsu), 40, 145
 SPA (Specialty Store Retailer of Private Label Apparel), 248
 Specialized manager, 43
 “Special procurement” Korean War boom, 133
 Sprint Nextel Corporation, 254
 Standard Oil, 151, 152
 State control, 95, 113–115, 117, 118, 153, 154
 State Grid Corporation of China (SGCC), 254
 Steam turbines, 202, 203
 Steel Control Board, 164
 Sudden rise of companies, 110
 Sumitomo (family and zaibatsu), 12
 Sumitomo Metals, 162, 163, 165, 166
 Sumitomo Steel Casting, 86
 Suntory, 181
 Supply chain management (SCM), 241, 242
 Suzuki Shoten, 119, 121, 124, 125
- T**
- Tachibana Gakuen, 201
 “Tailoring sales”, 21
 Takarazuka Revue, 99, 105
 Tanasaki sale, 20–21
 Tanpo [Danpung] Tetsudo, 138
 Tap water philosophy, 175, 179
- Teikoku Dozai Kogyo, 138
 Teikoku Oil Co., Ltd., 145
 Teleway Corporation, 232
 Ten-electric power company system, 116
 Texas Petroleum, 151
 Theory of constraints, 240, 241
 Third National Bank, 64, 65, 67
 3Cs, 168, 173
 13th National Bank, 16
 33rd National Bank, 48
 Three major zaibatsu in Chukyo, 128
 Three sacred treasures, 168, 172, 173
 Tobata Casting Company, 143
 Toho Electric Power Company, 99, 117
 Tohoku Electric Power Company, 106
 Tokai Bank, 158
 Tokai Seiki, 183
 Tokio Marine Insurance, 39
 Tokyo Denki, 119, 207
 Tokyo Electric Light Company, 76
 Tokyo Electric Power Company (TEPCO), 76, 222
 TOKYO GAS Co., Ltd., 69
 Tokyo Gas, 69
 Tokyo Higher Technical School, 202
 Tokyo Publishing and Sale (TOHAN), 238
 Tokyo Tsushin Kogyo, 182, 183, 190
 Toray Industries, 250
 Toshiba Corporation, 203
 Toshiba revolution, 208
 Toshiba Trading Company, 172
 Toyota automatic loom, 130
 Toyota Automatic Loom Works, 130, 131
 Toyo Nitrogen Association, 140
 Toyo Steamship Company, 69, 70
 Toyota Automatic Weaving Factory, 128, 129
 Toyota Boshoku, 128–131
 Toyota Boshoku Factory, 128, 129, 131
 Toyota (Labor) Dispute, 132–133
 Toyota Motor Corporation, 127–129, 131, 217
 Toyota-Platt agreement, 130, 131
 Toyota Production System (TPS), 133–135, 217
 Tsukumo Shokai, 54
 Tsurumi Maichiku, 69
 Two-front operation, 261–264
 Type-G automatic loom, 130, 131, 135
- U**
- Uniqlo, 245–249
 UNIQLO Design Studio, 248

Urban-style tertiary industry, 99
Ushio Electric, 232

V

Vacuum, 56, 152, 153, 172, 226
Venture manager, 225–234
Vodafone, 233, 253

W

Walmart, 242
Western Electric, 187
Westernization of lifestyles, 236, 262
West Japan Railway Company, 46
WILLCOM, 254
World Bank, 215, 216

Y

Yahoo, 252, 253
Yamada Tanko, 138
Yamaguchi Bank, 16
Yamaichi Securities, 221
Yasuda (zaibatsu), 65–67, 69, 137
Yasuda Bank, 64, 65, 67, 70
Yasuda company, 70
Yasuda Life Insurance Company, 68
Yasuda-ya, 64, 66, 67
Yawata Iron & Steel Co., Ltd., 40
York Seven, 238

Z

Ziff-Davis Publishing, 251, 252