The 'zaibatisu' families were a powerful force in Japan's economic activity, controlling the profits of all the major industries. Resentment from the public and left-wing politicians alike forced them out of existence – although some management sytems remain

Japanese zaibatsu

By Shigeaki Yasuoka

Coined during the Meiji Era (1867-1912), the word 'zaibatsu' originally denoted a family that possessed a great fortune and wielded substantial influence in society. Zaibatsu usually owned and controlled several powerful companies that dominated the economic activity of a country or region; they were more than just wealthy mercantile families.

After the Meiji Restoration of 1868, the term zaibatsu was applied to families and their associates who skillfully exploited the new industrial conditions in pursuit of their own growth, accumulated assets and expanded their power. However, the term also contained an implicit criticism. Thus the zaibatsu families did not use the term to refer to themselves.

Zaibatsu eventually evolved into corporate groups, each of which was centred on a parent company whose capital was owned by a family or family partnerships that conducted business in several industries through the subsidiaries they controlled and whose major subsidiaries constituted an oligopoly in various industrial sectors.

When family holdings were abolished after World War II, the zaibatsu-affiliated corporate groups were dissolved. The pre-war zaibatsu diversified by investing in many sectors. The primary businesses of the eight largest zaibatsu were:

- Mitsui: banking, international trading, mining
- Mitsubishi: maritime transport, shipbuilding, mining, banking
- Sumitomo: mining, banking
- Yasuda: banking, insurance
- Asao: cement, maritime transport
- Furukawa: mining, electric cable
- Okura: commerce, trading
- Kawasaki: maritime transport, shipbuilding

The three largest zaibatsu – Mitsui, Sumitomo and Mitsubishi – began expanding and diversifying their businesses during the Edo period. They formed corporate groups around 1900 with the families providing most of the capital. These were also known as integrated zaibatsu. In contrast, the other zaibatsu were created by people active at the time of the Meiji Restoration in 1868. They created businesses using smaller amounts of capital and thus had a lesser degree of diversification.

Characteristics of the owners

One condition for the development of zaibatsu in Japan was the principle of maintaining exclusive family ownership. Maintaining a consensus of opinion is relatively easy when ownership is limited to members of the same family. Also, the heirs of those people with ownership stakes received their parents' holdings intact. This ensured stable business operations. One factor in the success of Japanese zaibatsu was the harmonisation of the owners' conservatism and the innovative approach of the executives they hired to run the company.

Many merchants received their assets intact from their ancestors and these heirs were obliged to pass on their assets to the next generation. After the enactment of

Japanese family businesses

There are many hereditary family businesses in Japan. Most often, this refers to those engaged in manufacturing or commercial businsess, though Japanese politics is also viewed in this light because personal support organisations (koennkai) can easily be transferred to other family members, Thus, an increasing number of new entrants to the national parliament are now second, third or fourth generation politicians.

There are many family businesses in Japan that have survived and thrived over 200 years. How have they managed to be so successful?

Adoption and sons-in-law

Although Japanese society had basically adopted primogeniture until the end of World War II, in reality very flexible arrangements were made to ensure that the business was succeeded by the most suitable successor. Some family creeds specifically set forth that the successor be the fittest of all the children. In certain areas of Japan, there had been a long tradition that family business be succeeded by sons-in-law. Usually they picked a successor from outside the family as the husband to their daughter. (Eldest sons were given money and encouraged to pursue cultural activities.) Also adoption has been used to ensure continuity of family ownership within the business. In case there was no son, the Civil Code in 1899, the merchants and the zaibatsu formulated methods to maintain complete ownership. Thus the dissolution of zaibatsu as a result of inheritance problems was never an issue.

Dissolution of the zaibatsu

The exclusive ownership of the zaibatsu families was beneficial from the perspective of maintaining operational stability but the companies lacked a sense of the public interest. This gave rise to criticism that the zaibatsu families absorbed most of the profits from large corporations. The Japanese economy was in depression from 1920 to 1930 and the general public had a difficult time. The zaibatsu were criticised by the military and the left wing alike, and several politicians and zaibatsu leaders were assassinated. Mitsui was a particular target. In an attempt to moderate public opinion, they established the Mitsui Hoonkai, a fund dedicated to the improvement of society. The entire Mitsui family withdrew from top management and some of their stock was sold to the public.

The other zaibatsu also withdrew from controlling positions in directly-operated companies and became simply organisations for managing assets. This was a looser type of zaibatsu structure but the groups were soon confronted with the complete dissolution of the zaibatsu due to Japan's defeat in World War II.

During World War II, the American occupation forces regarded the zaibatsu as the economic pillar supporting the policy of military aggression – groups who promoted the execution of an aggressive war. During the war, the ten major zaibatsu investments accounted for 35.2% of the country's paid-in capital. Thus, the occupying forces saw the zaibatsu as monopolistic companies and decided to break them up.

Since most of the zaibatsu parent companies were holding companies with large corporations under their control, the controlling families were forced to sell their stock, which was subsequently made available on the open market. The families were also prohibited from holding executive positions in businesses. In 1946 dissolution orders were imposed on 83 holding companies and 56 people who had major stakes in zaibatsu companies. In addition, 1,535 executives in the zaibatsu–affiliated companies were removed from their positions. In 1947 the Anti-Monopoly Law and the Law for the Elimination of Excessive Concentrations of Economic Power were enacted to prevent the revival of the zaibatsu.

The success of the zaibatsu was the harmonisation of the owners' conservatism and the innovative approach of the executives they hired

Formation of corporate groups

Although the zaibatsu were disbanded, the major corporate groups, which had been affiliated with the zaibatsu and were under their control, continued to exist. In many cases, the leading executives of zaibatsu companies maintained their personal relationships and the business ties between their companies remained close. Thus, these companies continued to stay in contact with each other and cooperate after the core zaibatsu companies were eliminated. These conditions prevailed until 1952, when a peace treaty was signed.

One way in which these ties were maintained prior to 1952 was through clubs whose membership consisted of presidents of the large affiliated companies. A second method was through cross-shareholdings of affiliated companies and a third way was through keiretsu financing by affiliated financial institutions. As a result, corporate groups began to form that were different from the former zaibatsu. The closed, conservative aspects of the older groups were eliminated and they became more open and progressive. This was an important factor contributing to Japan's high economic growth after the war. The six major corporate groups were Mitsui, Mitsubishi, Sumitomo, Fuyo, Daiichi Kangin and Sanwa. Figure 1 shows the extent of their consolidation as measured by the ratio of joint shareholdings.

A comparison between those corporate groups affiliated with the former zaibatsu and those affiliated with banks shows that the companies affiliated with the former had higher cross-shareholding ratios. In 1986 the former zaibatsu-affiliated Mitsubishi had the highest ratio by far at 35.45%, followed by Sumitomo and Mitsui.

Several years later the cross-shareholdings in corporate groups formerly affiliated with zaibatsu sharply declined but those of groups affiliated with banks showed little change (see Figure 2). The slumping stock market and concerns about the future spurred financial institutions and corporations to dispose of their holdings in these companies, to enhance their financial position. Though the group companies still exist, it is difficult to maintain these shareholdings in today's business climate – and this trend is expected to continue for the foreseeable future.

Mitsui: the 'typical' zaibatsu

As mentioned earlier, Mitsui was one of Japan's largest zaibatsu before World War II.

or sometimes in case of absence of a suitable son, a family would adopt a talented one as a family member and as a successor. In the case of adoption, which is still practiced, a child's name is changed and registered as such with government and he will acquire full legal rights.

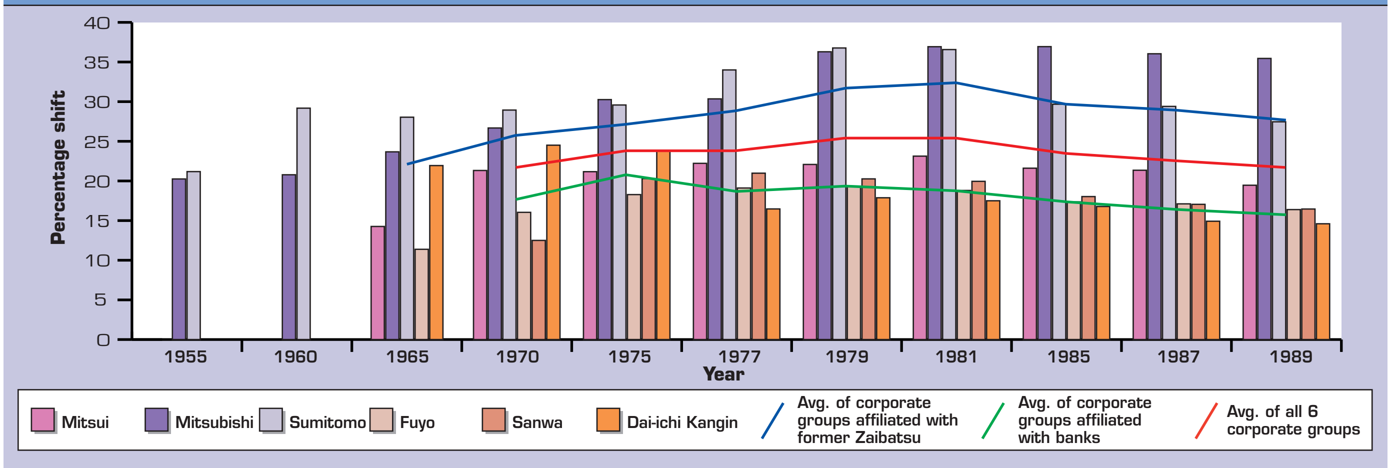
Successors, including sons-in-law and adopted sons, were trained thoroughly on business know-how and on various techniques of business management. Also, they were expected to adhere to the family creed and pay respect to family culture. They were an integral part of family business, as indeed the company creed and culture remain integral to this day in present-day corporations.

How did traditional family businesses deal with problems arising from the morale of family members and key managers who were not able to make it to the top? This was managed by the system of Norenwake, which allowed people deemed to be capable and who made significant contributions to the business, to set up their own business with some financial facility offered by the original family. Since they engaged in the same business line, with strong attachments to the original family, Norenwake was more or less like a franchise system and served as an encouragement as well as safety valve for those who did not make it to the top. This made a lot of sense as there were many more candidates than there were top positions.

The key to successful transfer

One of the strong points of hereditary business is that the training required for a successful succession can start quite early, under the supervision of the father who knows the business inside out. Each family's ultimate challenge is to strive to figure

Figure 1 – Shift in rate of joint shareholdings



The triumvirate of Mitsui, Mitsubishi and Sumitomo were termed the 'Big Three', but Mitsui was in fact the largest and developed the mature form of the zaibatsu before the others. Therefore, Mitsui is often viewed as typifying Japanese zaibatsu.

The defining characteristics of the Mitsui zaibatsu were the family system and the banto seiji system of management. These systems underpinned its rise to prominence and allowed Mitsui to maintain its dominant position virtually unchallenged. In the banto seiji system, the operations of the company were entrusted to specialist managers hired by the owners. These managers were provided with the ultimate decision-making authority in all the important matters. A prerequisite for this system is the loyalty of the managers to the owners.

In the book *Zaibatsu no Keieishi* (*History of Zaibatsu Operation*, Shakai Shisosha, 1990), the Mitsui zaibatsu is compared to other zaibatsu based on three aspects: the family system, the ownership system, and business diversification.

The family system: The sons of founder Takatoshi Mitsui formed a strong affiliation and established many house rules for the management of business and family affairs. They developed the means whereby all members of the family prospered. This exceptional system also was incorporated into the new zaibatsu that came into prominence after the Meiji Restoration. The system of the Yasuda family in particular was closely patterned on the Mitsui model. Additionally, the Yasuda family used Mitsui as a point of reference for creating the inter-corporate organisation (the zaibatsu combine).

Ownership system: Investments in the zaibatsu companies were not made by individual family members but instead were based on the family as a whole or on the assets of the entire family. In this context, the family included the entire family alliance of cadet branches established by younger sons and by employees. The general ownership of assets is expressed in German by the word 'Gesamteigentum'. In this form of ownership, assets are jointly owned by several people, none of who has the right to divide up the assets. Additionally, individual family members could not transfer their individual rights to the assets on their own initiative. Assets were hedged about with extremely stringent rules mandating cooperation so as to prevent diminution of the assets of the family.

With succeeding generations, however, these rules became less stringent and this tendency became more pronounced when Japan went on a war footing in the late 1930s and early 1940s. The increased taxation on the zaibatsu holding company and the companies under its control tended to weaken restrictions imposed on the family members by the holding company.

Diversification: The Mitsui, Mitsubishi and Sumitomo zaibatsu often established or expanded their business presence in indus-

out how to deal with this important issue of training the future CEO of its business.

In the case of Daiyasu, (a famous pickle manufacturer in Kyoto), the current successor remembers his younger days: "During my high school days, I was told to wash vegetables all the time, even during winter when the water was icy cold, when my classmates were having fun skiing. I sometimes resented this. But looking back I have to thank Father, because that way I learned everything about vegetables of each season, which is really critical for our pickle industry. Also, I learned how hard it is to do the work." In a different example, a unique training program was pursued by the owner of Hachimonjiya, a large bookstore owner with a history of more than 300 years. He used skiing as a tool for training his son: "It is a good training method because skiing will build one's body and also will train one's power of judgement because in skiing one has to make instant decisions all the time."

Family creeds also touch upon this issue of successor training. For example, the Family Creed of Echigoya (Mitsui) refers to the successor's training as follows: "Children of the clan should be treated until a certain age like any other employee – and should not be treated like the master." What does the wisdom of a family creed say about an undesirable successor? The Family Creed of the famous merchant Wakasaya says, "If the eldest son is lazy, not good to his parents or immoral, his name should be changed and he should be retired with some money".

Early and intensive training, almost equivalent to that required for the first generation, are the common hallmark characteristics of successors' training among traditional performing arts and culture. Of course succession in each type of business faces differtrial sectors associated with their original core businesses.

Mitsui's foundations

The population of Edo (later Tokyo) rapidly expanded after the establishment of the Tokugawa Shogunate in 1603. The areas surrounding Edo were somewhat backward, however, and lacked the capability to supply daily necessities. Therefore, they had to procure goods – primarily fine handicraft items such as silk goods (draperies), cotton textiles, fancy goods, sake, soy sauce and the like – from the more advanced Kyoto and Osaka regions. Since the home of high quality silk goods was in Kyoto, drapery merchants of Kyoto opened outlets in Edo to develop the Edo market.

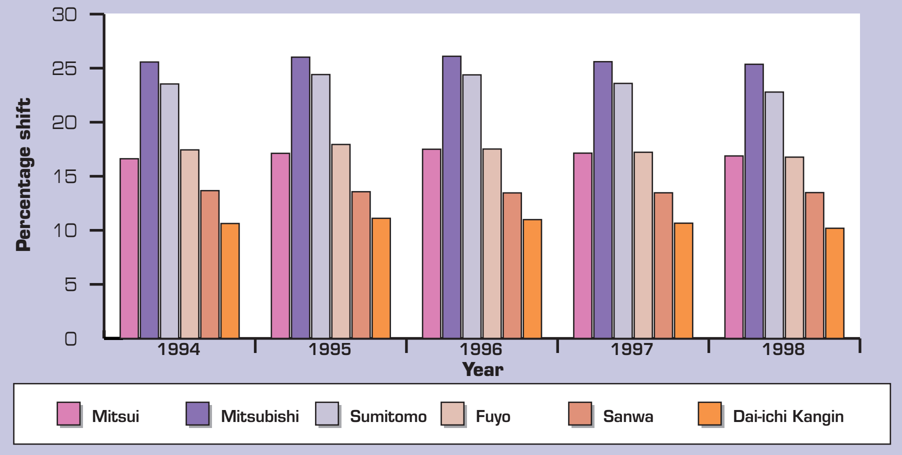
Takatoshi Mitsui opened the drapery shop Echigoya in Edo in 1673. He realised that measures would be needed to establish a foothold in the market already created by other merchants. Thus he started a money exchange business in 1680 immediately after opening his first store. In 1693 he opened an outlet for money exchange and in 1685 he opened a procurement business in Kyoto's Nishijin district.

A different approach

To enter a market in which other merchants were already established, meant that Taketoshi Mitsui had to devise new ways of attracting customers. His approach comprised of wholesale sales to merchants and retailing on a cash basis at the storefront. At that time, other large competitors did not sell merchandise at the storefront, so this was a revolutionary development. Takatoshi Mitsui maintained these sales techniques as the basis of his operations and adopted 'For the Customer's Convenience' as his motto.

At Echigoya, goods were sold at fixed prices and price tags were placed on them.

Figure 2 – Shift In cross shareholdings



The price was not varied depending on the customer, and so even people from the country, women and youngsters could purchase with confidence.

His management philosophy is reflected in the following rules of business operation that were established in 1673:

- Strict adherence to official rules and laws.
- Prohibition of all gambling.
- Prohibition of shop managers serving as the guarantors of other employees.
- Requirement for shop managers to report every six months on diligent employees, with bonuses given to employees who worked diligently for two years.
- Prohibition of sales on credit made off the premises.
- Prohibition of employees from borrowing and using money from acquaintances.
- Requirement for shop managers to hold three evening meetings each month to discuss sales and business.

There were many other regulations, and from these it is apparent that the conduct of the employees and the business was strictly controlled.

The Omotokata

By 1710, following the death of the founder Takatoshi Mitsui, his children had devised the family system and business system. They created the Omotokata, a governing body overseeing family governance and business. Based on this body the ruling family, the main family and the associated families managed the trade capital inherited as generally owned assets. The Omotokata invested the assets received from each of the families in the drapery shops and the money exchange stores, and allocated the profits to each of the families at a specified rate. These dividends supported each family.

In addition, the Omotokata held and

ent issues, therefore there is no one single formula for the successful transfer of family businesses over generations. However, the methods found in traditional art and culture offer insight into the successful transfer of business.

"There are sound reasons for the survival of hereditary companies.", says Mr Yoshiaki Shimomura, a management critic, who described the following points:

1. Corporate principles and philosophy exist that have been established over long periods of time and are well accepted throughout the company.
2. A long-term vision exists.
3. Successor training starts quite early.
4. A long history leads to incessant innovation.

These strengths have helped hereditary businesses establish a stronghold in Japanese society resulting in their products becoming household names. Hereditary businesses are very sensitive to their corporate image, and they make all-out efforts to save their brand for the honour of their forefathers and for the sake of future successors. In a way, hereditary business owners consider themselves as a kind of bridge – connecting forefathers and successors through their custodianship of family wealth for the time being.

Family businesses that have lasted for over 200 years seem to have an imbedded mechanism for survival that can be a source of inspiration for millions of family businesses throughout the world. ■

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managed as a whole all the trade capital bequeathed to Takatoshi Mitsui's nine children. The children received an allocation of profits in accordance with their share of the holdings. The council set the basic policy for operating drapery shops and exchange stores, and oversaw their operations. Moreover, every shop had to remit a percentage of its profits every six months in consideration of the funds it received from the Omotokata.

The zaibatisu system for managing profit targets is thought to have been advanced and not employed in Europe at that time

This system for managing profit targets is thought to have been rather advanced and was not employed in Europe at that time. Thus, Mitsui introduced revolutionary sales techniques and succeeded in implementing rational management methods for the stores and profits.

In the latter years of the Tokugawa Shogunate, however, this system became inadequate for managing the enterprise, which had grown very large, and red ink became the norm. This indicates that even an exceptional management system remains so only insofar as it satisfies the needs of the era. There is always the possibility that it may become outdated owing to changes in the business environment.

Changes during the Meiji period

In 1868, the upheaval of the Meiji Restoration brought both crises and opportunities for Mitsui and many other merchants. The Mitsui family encountered at least six major incidents during this time. These were adroitly handled by the progressive managers hired from outside by Mitsui. They were:

- The support provided to the new government from 1868 to 1870.
- Participation in the establishment of the Dai-Ichi Kokuritsu Bank (First National Bank).
- The establishment of Mitsui Trading Company.
- The government sale of the Miike Coal Mines.
- Reform of the Mitsui Bank.
- Foundation of the Mitsui Gomei Kaisha (holding company).

Takashi Masuda, an executive hired from outside Mitsui, played a major role in the founding of Mitsui Trading Co. This company was established as an independent enterprise apart from Mitsui family control and the management of the company was entrusted to Masuda. The company also expanded its business and acquired the Miike Coal Mines. The coal extracted from these mines was exported, generating large profits and contributing to Mitsui's prosperity. Coal mining was one of Mitsui's three largest business enterprises and this business grew through the connection with Mitsui Trading.

Initially, the management of Mitsui Bank was opposed to the purchase of the Miike Coal Mines from the government because of the high price set in accordance with government policy. Therefore they were unwilling to finance the purchase. Masuda convinced them to provide the financing, however, and they acquired the mines – overcoming their rival Mitsubishi. This success was a significant factor in Mitsui's growth.

Another non-family member, Hikojiro Nakagamigawa, worked to successfully rebuild the operations of the Mitsui Bank. The bank was funded by the 11 branches of the Mitsui family, with about 360 employees holding stock in the bank. Thus, it was launched as an enterprise jointly owned by the Mitsui family and the employees. The conservatism of the Mitsui family re-emerged with their dissatisfaction over the arrangement whereby employees and family members were placed on an equal footing as shareholders. As a result, the Mitsui Bank's business activities were conservative, resulting in their failure to dispose of non-performing loans, which had grown to an enormous sum. At that point, Nakagamigawa implemented a reorganisation program and recruited many new employees. His aggressive management policies and deployment of human resources underpinned Mitsui's resurgence.

In 1900 the Mitsui House Constitution was formulated, informed by the spirit of the family rules. This formalised the relationships among the various enterprises. The basis of the House Constitution was the establishment of the Mitsui Gomei Kaisha and conversion of the three directly-operated companies into joint-stock companies. The parent company held stock in the three directly-operated companies (Mitsui Bank, Mitsui Trading and Mitsui Mining), enabling it to control the ownership and operation of those companies.

The Mitsui family had acquired immense assets by that time, but the entity owning those assets was ill defined. Therefore, these assets were conveyed to the Gomei Kaisha, which became the primary ownership vehicle under the Commercial Code. The Gomei Kaisha, funded by the Mitsui family, owned the three directly-operated companies outright, thus securing both ownership and control. This completed the form of the pyramid-shaped combine, with the main company at the apex.

Dissolution

The Mitsui family members' voice in the management of the zaibatsu declined in the 1930s with the change in the situation of zaibatsu in general. However, they continued to intervene by expressing their opinions to top management. This resulted in delaying the reform of the zaibatsu, often placing management in a difficult position.

After World War II, Mitsubishi and Sumitomo enthusiastically cultivated inter-company ties, and the ratio of interlocking shareholdings within those groups increased. Mitsubishi was led by President Yata Iwasaki during the war, and Sumitomo family head Kichizaemon Sumitomo skillfully entrusted the operation of that zaibatsu to executives. As a result, both zaibatsu faced few obstacles in regrouping their affiliated companies.

However, things were different in the Mitsui camp. Opposition to the Mitsui family from within Mitsui companies impeded their regrouping. As a result, the restructuring of the Mitsui zaibatsu trailed that of Mitsubishi and Sumitomo.

The zaibatsu companies lacked a sense of public interest. This gave rise to criticism that the families absorbed most of the profits

Conclusion

Zaitbatsu certainly played a large role in shaping Japan's business and economic arena. The companies that exist today are a shadow of those that existed years ago. Today, corporate groups in Japan, which include many of the zaibatsu successors, are being forced to take painful rationalisation steps due to intense domestic and international competition. ■

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