Recent trends of business history in Japan

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It is important occasionally to introduce the work of Japanese scholars to foreign audiences because most of the research results are written in Japanese. Though there have been some introductions about Japanese business history in foreign journals, this article provides an opportunity to overview some streams in Japanese business history over the past twenty years, especially before and after the collapse of the bubble economy at the beginning of 1990s and to offer some perspectives for Japanese business history in the 21st century.

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1 Japan Business History Society publishes a quarterly journal, *Keiei Shigaku (Japan Business History)* written in Japanese, which publish about 1200 copies, including the distribution to 860 members of the society and there are other academic journals, such as *Socio-Economic History and Journal of Political Economy & Economic History* which publish articles relating to business history. However this short article focus on the articles published mainly in *Journal of Japan Business History*, which have short summaries of each article in English. The Society also publishes annually in English *Japanese Research in Business History (JRBH)* and has done over the past 23 years. Unfortunately it has a very weak presence in foreign countries. This article expresses a personal view, and is only a brief overview of business history studies in Japan.

In the last twenty years, world economic and business circumstances have changed drastically confronting business historians with a wide range of new topics. The established framework of business history needs to be reconsidered, and new avenues of investigation explored. There are a number of key factors to consider. The first is that we are now amid the third industrial revolution and there are large waves of high technologies like ICT innovation and bio-technology which are affecting economic and business circumstances, while changing drastically our way of life. There are plenty of opportunities for new venture businesses using the information network, whilst existing large companies are also under pressure to change in response to these new waves. Second is the pressure of stakeholders who are seeking to change the decisions and strategies made by professional managers employing their special knowledge and skill and working with advanced technological engineers. Large shareholders intervene with the prime aim of increasing short term profit. Under these circumstances, one wonders whether Chandler’s managerial enterprises still exist. Third is the impact of Japan’s notorious bubble economy of the 1980s and ‘the lost decade’ of the 1990s. These episodes force business historians to reconsider what was and is Japanese management and what is the competitive fate of Japanese firms in the world economy. The continuity or discontinuity of the
Japanese business system before and after World War two is a relevant consideration in this re-evaluation of Japanese management.

1. A. Chandler’s framework and its application to Japanese business history

It is natural to start with the influence of Alfred Chandler in Japan and how Japanese scholars applied his framework and research to Japanese business history. Chandler made a great impact on Japanese business historians over thirty years, and established one of the main streams of enquiry in business history in Japan. Our international Business History Conference, commonly known as the Fuji Conference, started in 1975, under the strong leadership of K. Nakagawa\(^1\), who had returned from Harvard. He chaired the first series of the conference for five years with the support of the Taniguchi Memorial Foundation\(^2\), which continued to finance a series of conferences over twenty five years. The first topic of the Fuji Conference\(^3\) was ‘strategy and structure of big business’ which was the similar to the title of Chandler’s

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\(^1\) Professor Keiichiro Nakagawa died on 25 March 2007 at the age of 84.
\(^2\) The conference series began in memory of the tenth anniversary of the establishment of the Society with the support of Taniguchi Foundation. The Taniguchi Memorial Foundation financed the Fuji Conference for 25 years and invited more than hundred foreign scholars.
\(^3\) The first 20 vols of the proceedings were published by the University of Tokyo Press, and thereafter by Oxford UP.
book\textsuperscript{1} published in 1966, and Chandler gave a paper there. It was a major opportunity for Japanese scholars to learn from him directly and thereafter Chandler’s strong influence took root in Japanese business historians.

S.Yonekawa had appreciated Chandler’s ideas and methods before the Fuji Conference started, and wrote a paper on ‘A.D.Chandora Jr., to keieishigaku no shin tenkai’ (A. D. Chandler and His Business History - An Introduction with Some Comments) in 1972 in \textit{Hitotsubashi Ronso} (The Hitotsubashi Review), which was published in one of chapters in his book, \textit{Keiei Shigaku} (Business History-its birth, present and perspectives) in 1973. He was one of the pioneers in introducing Chandler’s works alongside Gras, Larson, Hidy and Shumpeter in the course of the formation of business history in USA. He was quite farsighted recognising Chandler’s works in an historical context. Gradually text books on business history began to contain chapters relating to Chandler’s works, and Chandler’s framework became popular and one of the essential topics for students at faculties of business and management courses. For twenty years, Japanese business historians have concentrated their research on the growth of large enterprises in Japan against the background of high economic growth. Chandler’s framework was exciting and

\textsuperscript{1} Structure and Strategy: Chapters in the History of the Industrial Enterprise was translated into Japanese in 1967 by Mitsubishi Economic Research Institute.
applicable to the Japanese case.

Morikawa was especially enthusiastic about the application of Chandler’s schema to Japanese business history. Morikawa was a member of the first Fuji Conference, and was strongly inspired by Chandler’s framework. Prior to and during the early part of the 1980s Japan enjoyed an unprecedented economic boom and there were plenty of works explaining why the Japanese economy and Japanese business in particular was so successful focusing on the role of government, ‘group enterprise capitalism’, entrepreneurship, management style, Japan’s peculiar decision making system, life time employment, wage systems based on seniority, labor relation and so on.

When business historians searched for the roots of Japanese economic growth, they started to reconsider the role of zaibatsu before World War two. The zaibatsu, with the assistance of government, had been a driving force in industrialization. Morikawa was keen to apply the theory of Chandler’s managerial capitalism to the development of zaibatsu. Usually, zaibatsu were characterized as a family based holding company. The zaibatsu diversified into major industries through constituents companies, most of which were leading companies in Japan.\(^1\) The zaibatsu

\(^1\) According to Morikawa’s definition, zaibatsu was owned by families, and diversified into
appointed professional managers mostly graduates from top universities, who managed and controlled the group and constituents companies. Zaibatsu families participated in the top decision making, say, at council meetings. Of course there were some differences among the zaibatsu. Mitsui, the largest before world war two, was managed by professional managers, though family members participated in council meetings. The able professional managers led the group and constituent companies under the supervision of the Mitsui family. In case of Mitsubishi, however, the head of the group came from the Iwasaki family, owner of the Mitsubishi, and was involved in management to some extent, though supported by able professional managers. This system looked more like the managerial enterprises in US big business as explained by Alfred Chandler.

However, Etsuo Abe criticized Morikawa’s interpretation of what Chandler had written in his books. Abe asserted that Morikawa had not considered seriously enough the dispersion of shareholding in the large companies, and that the separation of ownership and management is a prerequisite for managerial enterprise.

major industrial fields. Yasuoka includes an oligopolistic aspect of zaibatsu in addition. Yamazaki and Kikkawa consider that the main factors of the zaibatsu were firstly family ownership, second diversification into major industrial fields, and third oligopolistic activity in their relative fields.
Morikawa had not, in his view, made the formation of managerial hierarchy a precondition for managerial enterprises. Abe argued strongly that managerial enterprise was established as a result of the development of managerial organization. From his viewpoint, the entrepreneurial enterprises like Carnegie steel and DuPont were not managerial enterprises, though they employed professional managers like Japanese zaibatsu, because the shareholdings were dominated by owners and their families. As to the textual criticism from Abe on Chandler, Morikawa changed his concept to accommodate new business circumstances, and stressed the formation of the managerial hierarchy rather than the separation of owner and management as a way of understanding Chandler’s framework.

Thereafter Chandler’s schemas continued to be discussed and his ideas had a strong influence upon Japanese business historians; what he considered to define big business, how such businesses emerged in the developed countries, and how his framework could be applied to Japanese business histories. However, two points are in order. First, Chandler’s model was clear and persuasive in explaining the growth of the large enterprise, especially in manufacturing industries at the time of the second industrial revolution from the end of nineteenth century to the interwar period. It is time to ask whether this model is applicable to business at the time of a third
industrial revolution. Under the new circumstances, business models are changing and we might need new ideas to explain the secrets of growing economies and firms. Indeed, many new entrepreneurial ventures business are being created and increasing their powers via networks of businesses linked by the innovations of information and communication technology. At the same time, large enterprises organized by professional managers still take the lead in the economies of developed countries. We have to examine how Chandler’s model will survive in the new circumstances, especially during the third industrial revolution.

Second, since the 1980s institutional investors and large shareholders have started to intervene strongly in the decision making of companies pressing them to raise the value of their portfolio in the immediate term. Professional managers look like losing their powers. But at the time when corporate governance is increasingly being controlled by the institutional and large shareholders, we need to ask whether there is still a need for professional managers to take responsibility for key decisions which require special knowledge and skill and which take a view of the long term otherwise the focus might shift to the short term interests of investors rather than the long term growth of the companies as a whole. We need further research on the role and situation of professional managers at the time of shifting corporate governance in
developed countries\textsuperscript{1}.

Since the collapse of the bubble economy in the early 1990s, there have been some reconsiderations of Chandler’s world. For instance, we had a symposium on ‘method of business history’ at an annual conference of our society in 1998, and sought out the possibility of a new method of business history outside of Chandler’s framework. Yoshitaka Suzuki emphasized the limits of Chandler’s study with its concentration on big business, whilst identifying the tendency of many studies to shift their attention to industrial agglomeration which Piore and Sabel had emphasized as important in explaining the strength of the regional economy.

Y. Suzuki,\textsuperscript{2} whilst appreciating Chandler’s contribution to world business history, compared his framework with Max Weber’s one for organizational development, pointing out both their methodological similarities and differences. He criticized Chandler’s tendency to generalize about the development of American big business, emphasizing instead the indigenous causes of the continued existence of regional economies such as the City in London. He also questioned the ability of professional

\textsuperscript{1} According to Matthias Kipping, large consultant firms like Mckinsey & co., were increasing their influence in the decision making of top management in large companies after 1980s, largely because of the need for specialist investment knowledge. However, such consultancy, rather than assisting companies, sometimes contributed to bankruptcies as in the case of Enron. Seminar of Hitotsubashi Innovation Research Center, 13 January 2009.

managers always to take optimal and reasonable decisions, as is often assumed, or
to be able to solve such difficult problems as overproduction and difficult labor
relations which even ideal large firms have continually to confront.

Chandler's theory and framework were also investigated by Leslie Hannah and
Kazuo Wada in., *Miezaru te no hangyaku-Chandora-gakuha hihan*. This book
originated from the paper by Leslie Hannah, 'Delusions of durable dominance or the
invisible hand strikes back: a critique of the new orthodoxy in internationally
comparative business history in the 1980s', 1995). It was published in Japanese in
2001 and will be discussed from various aspects thereafter.

2. Debates on ‘Japanese management’

One of the enduring concerns of among business historians is whether there are
the continuities of management and business systems between the zaibatsu before
the war and the company groups after the war which were closely based on the

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1 Morikawa reviewed their book and concluded that this book did not attack Chandler
appropriately. Morikawa argued that they could not criticize Chandler’s framework with a
partial evidence, and that they should propose a new one based on their own historical fact
finding. Keiei Shigaku, Vol.37, no.1, 2002
pre-war zaibatsu.

After the War, the zaibatsu were severely criticized by historians because they were considered to be in charge of promoting Japan’s militarism. After the war the American GHQ purged the top managers of large companies, most of whom were leading members of zaibatsu. The popular idea immediately after the war was that the traditional forms of economy and business should be discontinued under much more democratic political system by new business leaders. At first, Japanese scholars, especially those who learned advanced management and business at US universities immediately after World War two, criticized post-war companies for having adopted pre-modern business systems with their apparent lack of rationality. However, in spite of the tardy progress of the innovation by the new business leaders, Japanese economic growth began and enjoyed high economic growth from 1960s. The suspicion was that the characteristics of zaibatsu before the war had been carried over to the post-war large companies, which were reorganized under the new company groups. Japanese management remains a hot topic among academics because of this debate about the supposed characteristics of the company groups which led the post war economic growth in terms of management style, labor relations, technology, and how if at all it differed from pre-war zaibatsu approaches.
People started to reconsider the traditional Japanese management system, and to investigate the reasons why Japanese enterprises could accomplish such superior performance under a system regarded as backward compared with western and American models. At the time of the economic boom in 1960s, Japanese business was depicted as unique but often criticized because of the special relation between government and business, sometimes called ‘Japan incorporation’. The uniqueness of the Japanese management with its emphasis upon lifetime employment, seniority systems, and trade unions based on company rather than craft levels, attracted particular attention especially from an historical perspective. The inherent characteristics of ‘Japanese management’ came to be more fully appreciated.

From 1970s, a large number of studies started to generalize about Japanese management and to seek its applicability in other countries, given the rising scale of Japanese direct foreign investment and the need to consider the import of Japanese management practices to foreign firms. There were plenty of studies by Japanese scholars on foreign countries where Japanese capital was heavily invested from the 1970s onwards. They found both universal and peculiar aspects in Japanese management, and that the universal ones could indeed be applicable to foreign
countries. Generally speaking the effect of the Japanese management system in foreign countries was regarded positively given the relatively good performance of subsidiary firms abroad.

A symposium at the annual conference in 1996 highlighted the technology of the car industry focusing on Toyota, which had developed world wide even at the time of ‘lost decade’2. Japanese scholars were keen to investigate the sources of Toyota’s comparative success, delving into history to discover the sources of its dominance even in straightened times. It is well known that Toyota learned from the Ford mass production system at an early stage, gradually transforming it to a Japanese style. Taichi Ohno of Toyota was a key manager of the Japanization of the Ford system, which became Toyotism. In addition K.Shimokawa analyzed both the birth of Toyotism and its universal applicability to foreign countries, its changing aspects with regard to technical innovation, and the possibility of the another evolution of

1 One of the study groups was conducted by T.Abo. He published many books in Japanese and in English, including Amerika ni ikiru nihonteki seisan shisutemu: genchi kojo no tekiyo to tekiou (Japanese production system in USA : its applicability and adaptability by local factories)1991. See also, Kazuo Shibagaki, Malcolm Trevor, and Tetsuo Abo (ed.) Japanese and European management : their international adaptability, University of Tokyo Press, c1989, T.Abo (ed.) Hybrid factory : the Japanese production system in the United States, Oxford University Press, 1994

2 This section is based upon Onozuka’s report on Symposium, Keiei Shigaku( Japan Business History Review), vol.32 no.1 (1996)
Toyotism.

M. Nomura reported on Toyotism from the point of view of the production system and its effect on labor relations. He stressed the need to cope with long working hours and the lack of able workers, which resulted in reorganizations to achieve rapid decision making and flexible response to changing demands, changes in wage and allowance systems, and the introduction of new working in shifts.

H. Shioji compared the differences in the distribution mechanisms for cars in the US and Japan. He stressed that GM and Ford established the franchise system in 1920s in response to mass production, and promoted the sales of their cars to a great number of dealers, mainly composed of small enterprises. In the US, the car makers took a lead in marketing, called ‘product out’. On the other hand, though Japanese car makers learned the marketing system from the US in 1920s, they organized their own dealers, with funding and the dispatching of key personnel. The dealers handled exclusively the cars produced by their mother companies, and could not afford to sell other makers’ cars owing to high pressure of demand up to 1960. From the latter part of 1960s, a sophisticated order system from dealers, the ‘market-in system’, was established whereby dealers could reduce dramatically the numbers of cars in stock, while the makers responded flexibly to the orders of the dealers in
terms of numbers of cars, their styles and colours. But Shioji also pointed out that though Japan was able to successfully employ this advanced order system, US dealers still demonstrated higher performance in sales promotion and profitability.

T.Yoshikawa investigated the production of parts under the Toyota system from the point of view of management science. The Toyota system was prominent for the reduction of preparation time required for production. This in turn required workers to have multi-skills and for the control of the parts needed on the production line, the famous Kanban system introduced in 1963. Mr. I. Sato, president of Thai Toyota, as one of commentators, claimed that the Japanese management system was highly appreciated among workers, and that it had resulted in improved productivity in the factory in Thailand. In general the symposium reflected the continuing interest in the car industry, its management and technology attracting scholars from various specialists on the history of car production. Generally speaking, Japanese business historians always keep in mind comparisons with other countries, and sometimes seek contributors to symposia from outside of the strict confines of business history and even academia itself, because of the interdisciplinary character of business history.

As mentioned before, Japanese economy in 1990s was confronted by severe
economic recession following the collapse of the real estate market and the accompanying distress among financial institutions, ushering in Japan’s ‘lost decade’. Traditional Japanese management looked as if it had disappeared against the backdrop of the rapid changes of business circumstances. Enterprise groups were reorganized with strong intervention by institutional investors, and companies tended to focus on much more short term profit. Labor management practices changed from seniority wage systems to the principle of payment by the workers’ accomplishments, and the number of the part time employees increased. In the new circumstances it was hard to lend support to the traditional Japanese management system.

From the business historian’s point of view, however, it was clear that some major companies like Toyota, Honda, Sharp, and Canon were still enjoying remarkable progress at this time. The issue was how to understand the co-existence of prosperity of excellent companies amidst severe economic crisis within the Japanese economy. We need further business history studies of the continuing impact of business management practices such as the Toyota system.

In light of the strong belief after 1990s that the essential features of the Japanese management system had already disappeared or were destined to do so, Takenori
Saito, a specialist in management theory rather than an historian, reconsidered Japanese management. He pointed out that the Japanese management system became recognizable in the 1960s and attained its highest level in the 1980s. Thereafter it matured and started to decline especially from the 1990s. From a theoretical perspective, it appeared that Japanese management had finished its traditional role in the development of the Japanese economy, and was under great pressure to develop a new model to sustain excellent companies¹.

What would be the new management? K. Shimokawa, one of the prestigious professors of business history, recently published a small book, ‘Ushinawareta 10nen wa norikoeraretaka’ (Is ‘the lost decade’ conquered?) ² in which he analyzed various reasons for the bubble economy, and the current economic and business situation. He stressed that manufacturing, especially parts manufacturing and high quality materials industries, would support the Japanese economy from now on. He also agreed with the recent proposal by N. Takahashi³, a specialist of management and business, that payment by performance was not realistic but illusional. It was perhaps

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¹ Takenori Saito, Sengo Keieishi no Doko (Trends of Japanese Business History after the War) Keiei Shigakuvol.37 no.3 2002
² Koichi Shimokawa, ‘Ushinawareta 10nen/ wa norikoereta ka (Is ‘the lost decade’ conquered?)’, 2006,
³ Nobuo Takahashi, Kyomo no Seika shugi (Illusion of payment system by performance: a proposal to return to Japanese style seniority), 2004
time to reconsider the virtues of the traditional seniority system in a new light. At any, we need to review and reconsider the traditional Japanese management to find a new management system.

Other debates on Japanese management stem from agency theory and corporate governance. A symposium on ‘The History of Corporate Governance and its perspectives’ was conducted in 1998. M.Tsuchiya pointed out that major Japanese companies joined company groups after World War two in order to cope with the wave of takeovers, and that several groups were formed under the name of old zaibatsu before the war. The companies in the group retained cross-shareholding. Managers’ positions were stable and guarded from the pressure of outside stakeholders. Nevertheless, pension fund holders in the USA emerged as large stakeholders in companies from the 1950s. As they gathered power in corporate governance by the 1980s they began to promote a merger and acquisition movement which threatened some of the secured positions which company groups had developed for themselves after the war. T.Okazaki analyzed Japanese corporate governance with institutional theory and data, and asserted that the main banks took a crucial role in terms of corporate governance by monitoring companies to which they lent, not least by dispatching directors to companies in distress. T.Kikkawa
criticized this approach claiming that Okazaki stressed too much the role of main banks in monitoring companies, especially given that the banks failed spectacularly to prevent the collapse of the bubble economy in 1990s, which was itself caused by irresponsible over-lending. It was the industrial policy of the government that took on the role of governance instead of stakeholders of the companies. Moreover, the trade unions were important as well as banks in Japanese style corporate governance. T.Yoneyama reported on the corporate governance in life insurance companies, most of which were not based upon joint stock companies, but upon mutual foundation funds, where the government rather than shareholders held sway in corporate governance.

3. Research on small and medium size enterprise

One of the popular subjects of study is that of small and medium size enterprises (smes). Marxist academics had long emphasized that Japan suffered from a dual economy composed of big enterprises and smes, the latter always under the pressure from the former. Smes traditionally took the role of buffer during economic fluctuations. The workers at smes were always paid lower wages, and
suffered inferior working conditions. Smes were depicted as one of the darker aspects of Japanese economy. Smes had to endure competition from China and other Asian countries, and many industrial areas in which smes traditionally operated were ultimately deserted and resulted in ‘hollowing out’ effect when factories started to relocate to foreign countries in order to remain competitive.

However, even during ‘the lost decade’, many industrial areas not only survived but are now home to agglomerations in local areas supporting smes. Japan has areas where smes agglomerate, with their special skills and with business networks of firms cooperating and communicating each other. There are some areas and firms which are highly competitive even in depressed times and they have attracted the attention of Japanese scholars in the wake of Japan’s post 1990 decline.

Studies of smes have been directly influenced by the works of S.Tolliday and J. Zeitlin following on publication of *The Second Industrial Divide* in 1984 by Michael J. Piore and Charles F. Sabel. Kikkawa pointed out that there is a special logic different from the reasoning on the formation of modern big business which can

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1. This book was translated into Japanese not by a business historian, but by the famous economic historian, Yamanouchi.

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explain local dynamism based on the agglomeration of smes. There firms cooperate
with each other, largely on the basis of the division of labor, accumulating their own
skills and market power.

M. Sawai organized a session on The Industrial Cluster at the conference of the
Japan Business History Society in 1998. He classified four types of industrial
clusters: urban industrial areas, local industrial areas, traditional local areas which
locate sometimes where it is easiest to obtain raw materials, and industrial towns
agglomerated to supply parts to a parent company. Most of the conference reports
and debates were directed to the urban industrial cluster\(^1\). Y. Suzuki organized a
session at the annual conference of Japan Business History Society in
2006\(^2\) focusing upon the relation between the production system and industrial
clusters, largely because the two topics were traditionally discussed separately rather
than as interrelated entities. In terms of the production system, smes are usually
considered merely as suppliers to a parent company. In terms of the industrial cluster,
smes could also be analysed in terms of the strengths they derive from being
networked to other smes. Three papers were presented there by S. Matsushima,

\(^1\) Sawai, Senkan ki nihon ni okeru daitoshigata sangyo shuseki no ronri to jittai(The logic
and distribution of urban agglomeration in the inter war period), *Keieishigaku*,
vol. 34, no. 2, 1999.

\(^2\) Y. Suzuki, Sengo nihon ni okeru seisan shisutemu to sangyo chiiki(The production system
and industrial areas after World War two), *Keiei Shigaku* vol. 41, no 4, 2007
J. Otawara and T. Hashino, which were focusing on the car industry in Nagoya, an area where the major factories of Toyota and Honda were located.

4. Some perspectives for Asian business history

Asian business history might well emerge a major topic of interest in the near future. Although Asian countries were long thought to be destined politically and economically to be backward compared with western countries, the success of the ‘Asiatic Production System’, exemplified especially in Japan’s high-growth success and seemingly related to peculiar aspects of Asian culture, society and political systems, focused the attention of foreign scholars on the alleged secrets of the Asian economy and business as a whole.

A. Suehiro, an authority on the Thai economy and business, stressed the role of government, the transfer of technology and the introduction of foreign capital in the course of the industrialization of Asian countries. He stressed the concept of ‘social capability’ as the means whereby foreign technologies could be transformed to make them applicable to indigenous social, economic, and business conditions. ‘Social capability’ included various elements such as entrepreneurship, policies for import
substitution, export promotion, and industrial policies as a whole. He also raised the concept of ‘developmentalism’ which drives underdeveloped countries to develop their economy by the continuous innovation of technologies, and suggested that M. Porter’s cluster theory might be useful in understanding the potential of Asian economic growth\(^1\).

Kubo, aware of the significance of Asian business history, organized a session at the annual conference of Japan Business History Conference in 1999\(^2\). The title ‘Asian business history- its method and possibility’, invited scholars to explore how business history could be useful in explaining the interconnected roles of government, entrepreneurship and technologies and how they combined to establish a national consensus for growth. He attempted to establish a framework for Asian business history, but was aware that much needs to be done to expand business history case studies across Asian countries as a whole before useful generalizations can be formed.

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1 A.Suehiro, \textit{Kyacchi appu gata kogyoka ron} (A type of industrialization by catching up), 2000.