

***“Tsunami”* Globalization & New Business Models in Japan**

Part II

Japanese Pre-war ‘Zaibatsu’ Families and Post-war Restructured Business Groups

**— A Study of Corporate Governance & Business Ethics
in Toyota Corporate Culture—**

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I. What are the ‘Zaibatsu’?

1. Proposal

‘Zaibatsu’ or financial clique (combine) in Japan is an outdated concept of the pre-war era as we do not use this term ‘Zaibatsu’ in post-war Japan.

Traditionally, ‘Zaibatsu’ emerged from certain families such as the Mitsui, the Iwasaki (Mitsubishi), and the Sumitomo. Those ‘Zaibatsu’ families or the group of blood related families owned and controlled the key company as well as each group company stocks as if they were holding companies as in the U.S. business environment.

Let’s consider the ‘Zaibatsu’ from a Japanese perspective. It is a management body organized by some rich families and/or their related groups, acting as a closed clique to control company stock and organizationally structured to develop and manage multiple, diverse business ventures.

It is said that the origin of the ‘Zaibatsu’ was either via Government led business ventures or development of the mining industries but this is not the whole story. Although the

'Zaibatsu' started from Government business activities and mining management; the significance here is that the 'Zaibatsu' were successful to break away from those constricting starting points while innovating to adapt to the long term trends of industrialization; they then diversified management strategy and went on to develop into the very big 'Zaibatsu'.

Following the aftermath of W.W.II, the pre-war 'Zaibatsu' were dissolved. Slowly, these 'Zaibatsu' without their 'Zaibatsu' families began transforming into industrial 'Keiretsu'-type management configurations. For example, though the names of Mitsui, Mitsubishi remain, the family groupings of Mitsui and Iwasaki are no longer owners of the Mitsui line and Mitsubishi line companies. Those family members are no longer in the management; management professionals are hired from the general public.

2. Forms of 'Zaibatsu'

The pre-war 'Zaibatsu' were not exactly like the American-type big businesses. These pre-war 'Zaibatsu' according to occupation or family businesses were varied in many ranks of strata: first rate, second rate, third rate, large, middle size, small, in the Tokyo area or outside (regional area) and so on.

The large 'Zaibatsu' were Mitsui, Mitsubishi, Sumitomo and Furukawa. Also there were small groups of 'Zaibatsu' scattered throughout Japan. Then again, in the present, Toyota and Ishibashi (Bridgestone) are world renown groups however, long ago they were small regional 'Zaibatsu' of Kariya and Kurume.

There are also the 'Zaibatsu' of Ono, Shimada and Mitsuya who failed due to Government business ventures. On the other hand, there are the regional-originated Kikkoman soy sauce of the Mogi family and Morita, manufacturer of sake and vinegar dating from the Edo Period (1603-1868). They have continued their old family businesses while successfully innovating and adapting management strategy to become global industries.

3. Research Methodology

Some Japanese researchers of 'Zaibatsu' have taken one approach from the Marxism perspective of monopolistic capital and financial capital. Another set of researchers have approached from the perspective of oligopolistic capital under incomplete competition. Then

there is the last of the three main approaches, that of the management history perspective.

According to the management history perspective though the 'Zaibatsu' along with their ancestors, family and family groups owned and ruled according to their corporate configurations however, regarding the actual management body, there was a tendency to be dependent on the 'Bantou' (professional managers).

There are three pillars in this analysis: (1) the history of Japan's national economic industrialization, (2) corporate management reform, and (3) human qualities and character of entrepreneurship.

II. Features of the Three Big 'Zaibatsu'

1. National Economic Industrialization

Now let's just focus on the big three 'Zaibatsu' of Mitsui, Mitsubishi and Sumitomo and analyze the general management history of the Japanese 'Zaibatsu'. The development and growth of the 'Zaibatsu' are linked and overlap the history of Japan's economic industrialization. Indeed, the big three competed with each other and grew pivoting around the chemical engineering and heavy industrialization process which encompassed the iron and steel industries, shipbuilding industry, electrical machinery industries, copper rolling and electrical wiring industries, light alloy and aluminum industries, airplane manufacturing industry, chemical engineering, synthetic textile industries and oil refining industries.

Also W.W.I, triggered the growth of the 'Zaibatsu'. Participation in this heavy industrialization was made possible by the accumulation of capital, technology and human resources from their main businesses of mining, shipbuilding, metallurgy, trading companies and etc.

2. Corporate Management: Relations of Family Groups and 'Bantou'

The differences between the big three 'Zaibatsu' become clear when we look at the relations between the family groups and their professional managers ('Bantou'). In general, we can summarize these relations in the following way.

Mitsui 'Zaibatsu'—Burdened by their Edo historical legacies, the Mitsui family members branched out. They preferred to participate in management and concerned themselves

with the 'Bantou's' decision making. The separation between family and company was not clear.

Mitsubishi 'Zaibatsu'—Owned by the nouveau riche Iwasaki family, they participated directly in the management. Decision making was made centering around the family head while the 'Bantou' served as his assistant.

Sumitomo 'Zaibatsu'—the Sumitomo family carried on the traditions of the Osaka merchant, owning but not reigning. The family and the company were completely separate. The 'Bantou's' authority was very strong, at times even deciding who would head the Sumitomo family.

3. The Human Qualities That Make the Entrepreneur:

The Qualifications for the 'Bantou'

The 'Bantou' was a professional manager, unrelated to the family and also without stock ownership. Considering historical Japanese management in the traditional occupations and family businesses, the 'Bantou' rose from the first step as 'Kogai' (hired from childhood), then was promoted to 'Detchi', 'Kozou', 'Tedai,' then to 'Bantou' in a seniority pattern of promotion set within a lifelong employment system.

However the process of heavy chemical engineering and industrialization, demanded management reforms with resulting changes in the employment conditions and qualifications for the 'Bantou'. And those features consisted of: (1) coming from 'Samurai' backgrounds, including medical doctors, the intellectual strata, (2) being highly educated at the elite institutions (Imperial Universities, Keio University, Top-class Business Colleges, Naval and Military Academies, etc.), also having foreign study abroad, (3) immediately employed into management class (up to 40 years old), (4) most of these in the management class had experience elsewhere, (5) those with overseas experience were given chances to develop their abilities and capabilities.

III. Dissolution of the 'Zaibatsu' and the Birth of Corporate 'Keiretsu'

1. Demise of Ownership by 'Zaibatsu' Families

Following the end of W.W.II, the Allied Forces GHQ (General Head Quarters) ordered the dissolution of the 'Zaibatsu'. The reasons were responsibility for cooperation in the war effort

and also to promote democratization and liberalization while correcting the economic and social differences. Then again, the Allied Forces probably feared the reactivation of the 'Zaibatsu'.

Although the 'Zaibatsu' were ordered to be dissolved by the GHQ, within the 'Zaibatsu' there were problems that would lead to their eventual collapse. And these problems were related to the need for huge amounts of capital for post-war Japan's heavy chemical and engineering industrialization, amounts which could not be forthcoming from the 'Zaibatsu' families.

Especially due to the excessive competition between the big 'Zaibatsu' relating to heavy chemical and engineering industries while being hampered by their closed 'Zaibatsu' family groupings; they had reached the limits of their ability to get the necessary amounts of capital. Also from within the 'Zaibatsu' families there were individuals who were against participating in these heavy industrial enterprises leading to clashes between the families and their professional managers ('Bantou').

Of course, with the post-war dissolution of the 'Zaibatsu' these families and their 'Bantou' were removed from their leadership status in the Japanese social configuration. Also, those at the center in leadership of the Japanese economy, taking responsibility for the war were removed from these positions.

As a result, the post-war old 'Zaibatsu' companies with their core 'Zaibatsu' families who controlled the stock along with the top management class were absent, thus the post-war company reactivation programs were left amidst the post-war chaos and confusion.

So in these post-war conditions, the only way for the old 'Zaibatsu' type companies to carry on was to break up those large companies into smaller ones, then not depending on capital from the 'Zaibatsu' families, but relying on staff ability to raise capital while appointing capable human resources, they had to persevere and shoulder the burden to rebuild post-war Japan.

2. The Birth of Modern Managers and Modern Capitalism

Here the post-war old 'Zaibatsu' type companies management was shouldered by the middle management and younger managers. These young managers were imbued with an entrepreneurial spirit based on the philosophical reform introduced by the post-war modern capitalism. This philosophy of modern capitalism broke away from the traditional type

management centering on the family, leading and reforming Japan on the road toward Western modern management.

The 'Zaibatsu' dissolution served to make Japan a more equal society socially. However, a new management strata was born. Management control had changed from the 'Zaibatsu' to the 'Gakubatsu' (elite school lineage). Said in another way, from the 'Zaibatsu' control by family and relations, the Japanese-type capitalism of 'Gakubatsu' of school lineages structuring connection patterns between corporations and Government gradually fell into place.

This post-war economic revival was led by Government guided control of capitalism. Capable bureaucrats skillfully balanced protectionism and liberalization while actively importing technology from the United States to rationalize productivity.

Especially, trade promotion and the development of small and mid-sized companies were stressed and Japan's post-war economic foundations were set into place. Also, capital liberalization followed along in stages in tune to the nation's economic development, however this acknowledgement of protection and falling into a convoy line though successful for rebuilding the nation; later impeded the ability of the Government to globalize and adapt to changing world conditions.

3. Corporate 'Keiretsu' (Alliances) System

The former 'Zaibatsu' companies, began pivoting around their old bondings and in stages began building alliances in the post-war period. And these alliances consisted of mutually holding stocks in common (cross share holdings), capital loans, business cooperation, related company tie ups and strengthening alliance transactions.

These phenomena of former 'Zaibatsu' companies building these 'Keiretsu' may look as if the pre-war 'Zaibatsu' had been reactivated. However, at the center pivot point of these 'Zaibatsu' related company 'Keiretsu' the 'Zaibatsu' families are missing, so these formations are not 'Zaibatsu'. But of course, the pre-war 'Zaibatsu' relations and people connections were there, and those connections triggered the construction of the post-war 'Keiretsu' system of these former 'Zaibatsu' companies.

The post-war Mitsui and Mitsubishi and the other former 'Zaibatsu' linked companies continued in mutual competitive relations as they had before the war. Furthermore, in the post-

war environment these former 'Zaibatsu' linked companies were challenged by the development of other non-'Zaibatsu' type companies.

Then as competition between companies increased, the demand to increase the scale and scope of profits of each and of the alliances became imperative. As a result, using the main banks and major trading companies as intermediaries post-war Japanese companies promoted the 'Keiretsu' system.

Then again in the areas of the new industries, they also constructed these 'Keiretsu'. So there are the 'Keiretsu' in the electrical field such as Matsushita and Sony. Furthermore, regarding the electrical industries, automobile industries and on to the distribution industries there are so many related corporations and cooperative companies that the corporate 'Keiretsu' have become more complicated configurations and with the appearance of M & A type and such strategic cooperative entities, the situation has become globalized.

IV. Regional 'Zaibatsu' Still Alive

1. The 'Zaibatsu-ization' of Toyota and its 'Non-Zaibatsu-ization'

The Toyota 'Zaibatsu' riding on the economic opportunities of W.W.I, became a newly emerged regional 'Zaibatsu'. Accumulating experience and capital in small scale industrial management of their family business; they began to use these resources to diversify into different industrial fields. Starting from (silk) spinning wheel manufacturing, cotton spinning/automatic spinning machines, then lastly on to automobile manufacturing, they continued to diversify management.

After Toyota Automobile Manufacturing Company was established, they began creating subsidiary companies, one after the other to manufacture related components.

In this early stage to establish the automobile manufacturing business, within the Toyoda family clan there were clashes about the risk taking in this new area of industrialization. The clan was over-ruled. So this newly emerged regional 'Zaibatsu' bravely gave challenge to develop the industrialization of automobile manufacturing, an area from which the major 'Zaibatsu' had fled!

The Toyoda family clan were unable to completely own the company stock (20% of Toyota Automobile and 60% of Toyota Spinning). And that was because of the grand scale of capital required and also due to their benefactors (family relations with Mitsui and connections with the Bank of Japan, also the Chukyo 'Zaibatsu' groups—such as the spinning industry 'Zaibatsu' people).

That the Toyoda family could live through pre-war and survive in post-war conditions are related to: (1) rather than putting weight on only the family, they respected an open and liberal spirit, (2) Toyoda Kiichiro's rich and varied human relations, and excellent visionary ideas and information collection networks regarding the automobile manufacturing industry, (3) via business transactions with Mitsui Trading Company, they were able to collect international and domestic information thereby enhancing their capabilities, and (4) discontinuing the pre-war tradition to adopt sons into the family.

In post-war Japan, Toyota was also included in those 'Zaibatsu' families. But they were lucky to be excluded from the 'Zaibatsu' dissolution list ordered by the GHQ in post-war Japan.

Toyota's strategic way to avoid this dissolution order was to break the head company to multiple auto parts manufacturers and disperse the company stocks to those newly established companies such as Denso, Aishin, and other key suppliers.

Thus, the House of Toyoda could disguise any image of 'Zaibatsu' and quietly remained in the countryside without an over-presence right after W.W.II.

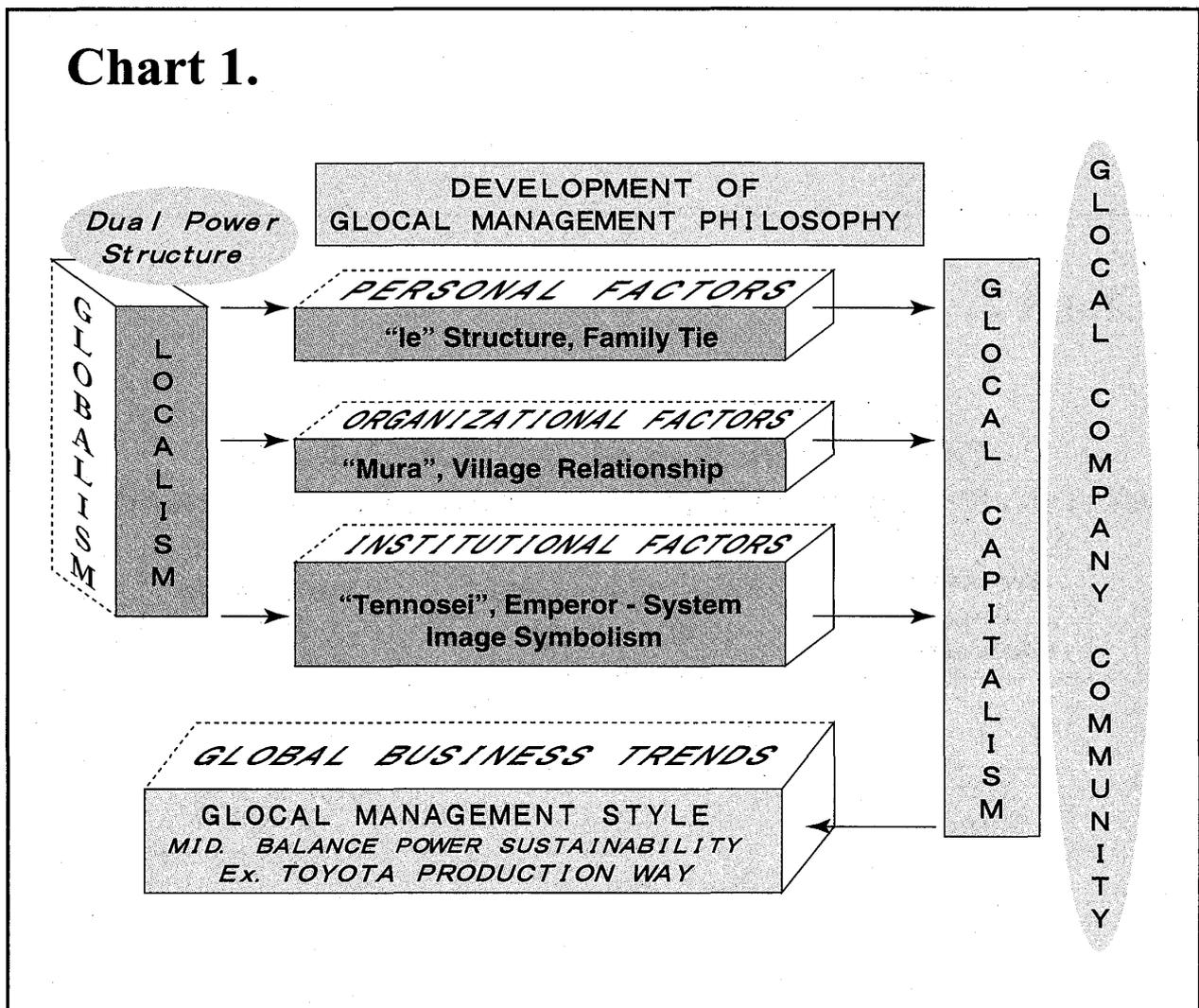
2. The House of Toyoda Family and the Toyota Company

Presently, the Toyoda, Shoichiro, main family successor owns 2% of Toyota Automobile Company; indeed the Toyoda 'Zaibatsu' has changed to the Toyota Group. This corporate culture has the following characteristics: (1) Emperor-type image management, (2) Toyota-type globalism dynamics, and (3) corporate ethics of high quality.

Toyota Company has continued long term employment in their corporate culture. The management philosophy of that maintenance is considered in the same light as the company's maintenance principle along with the maintenance principle of the family. In depressed times, firing employees is similar to the president's resignation which is equal to his death and the demise of the family.

Toyota's employees reason for affirming the continuity of the Toyoda family in the company is because the family is not self-aggrandizing.

Chart 1 pictures this Emperor-image within Toyota's corporate culture and the relation with its corporate ethical system set against the contrasting Western-type. Toyota's management globalization while balancing Japanese culture and Western civilization has constructed a new order in a double layered structure thus succeeding to strategically construct a new style 'Zaibatsu' for the post-war environment.



3. Succeeding Heir

In these relations of the Toyoda family and the Toyota Company, we can discover another dimension in the management organization culture which is separate from the laws of

ownership and company and management control. Regarding this background of the Toyoda family and Toyota Company support of this logic of a management heir in a continuous line from the family, we have made the following inferences: (1) the continuation of an Emperor-like image heir operates to cancel out the drive to structure dictator-like factions, thus avoiding the evils of clique formations, (2) an educational and training environment has been set up to train the heir for management qualifications and thus as his career development is carried out the company matters proceed, (3) so even as diversification and globalization of the contemporary company goes on, this 'Heir-Bantou' merchant family culture in its untouched form lives on in the company culture.

These phenomena have been diagrammed in **Chart 2** (Success in Continuity of the Toyoda Family), **Chart 3** and **Chart 4**.

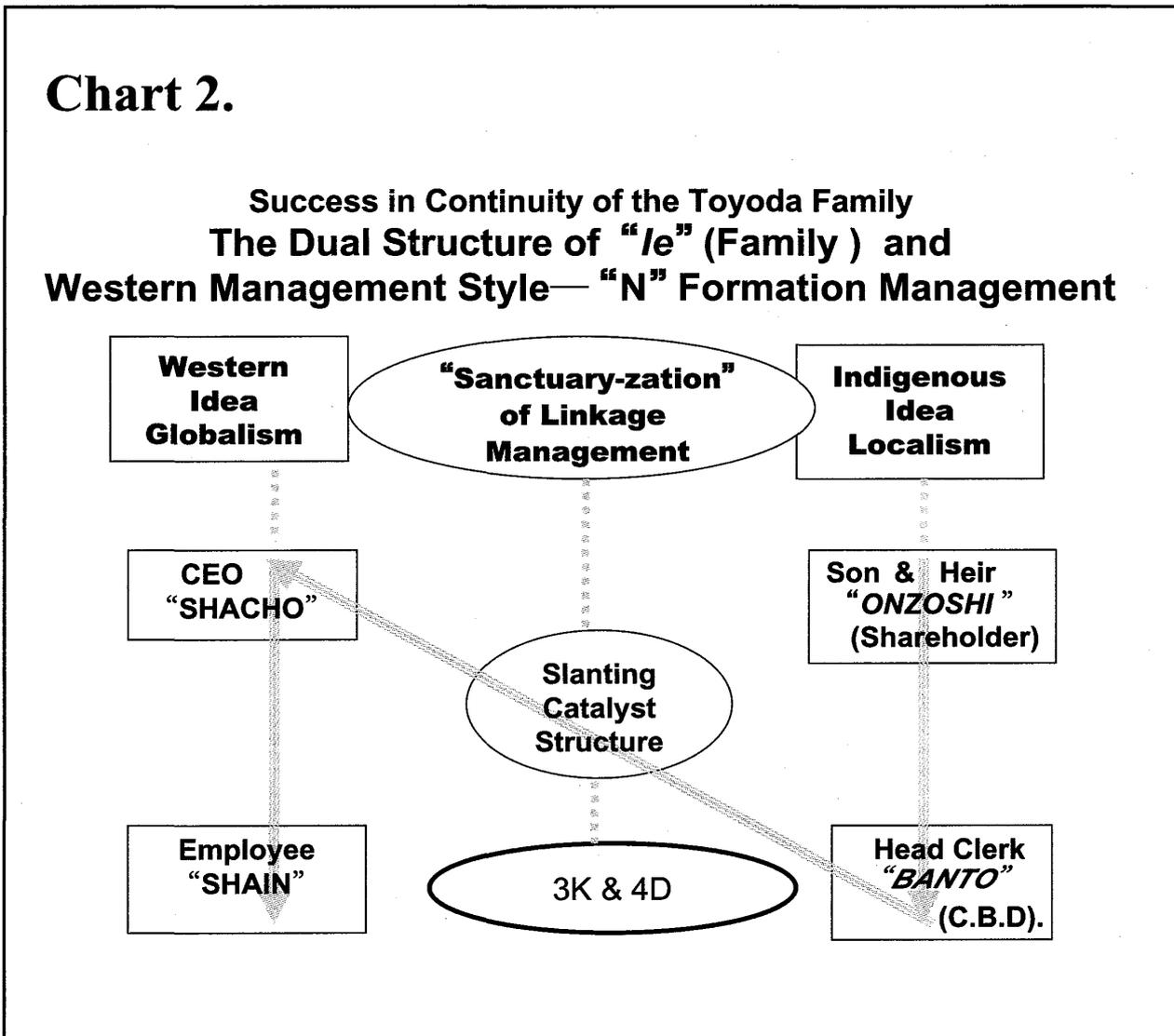


Chart 3.

The Map of the Toyoda Family Executives Over Generations

June, 2005

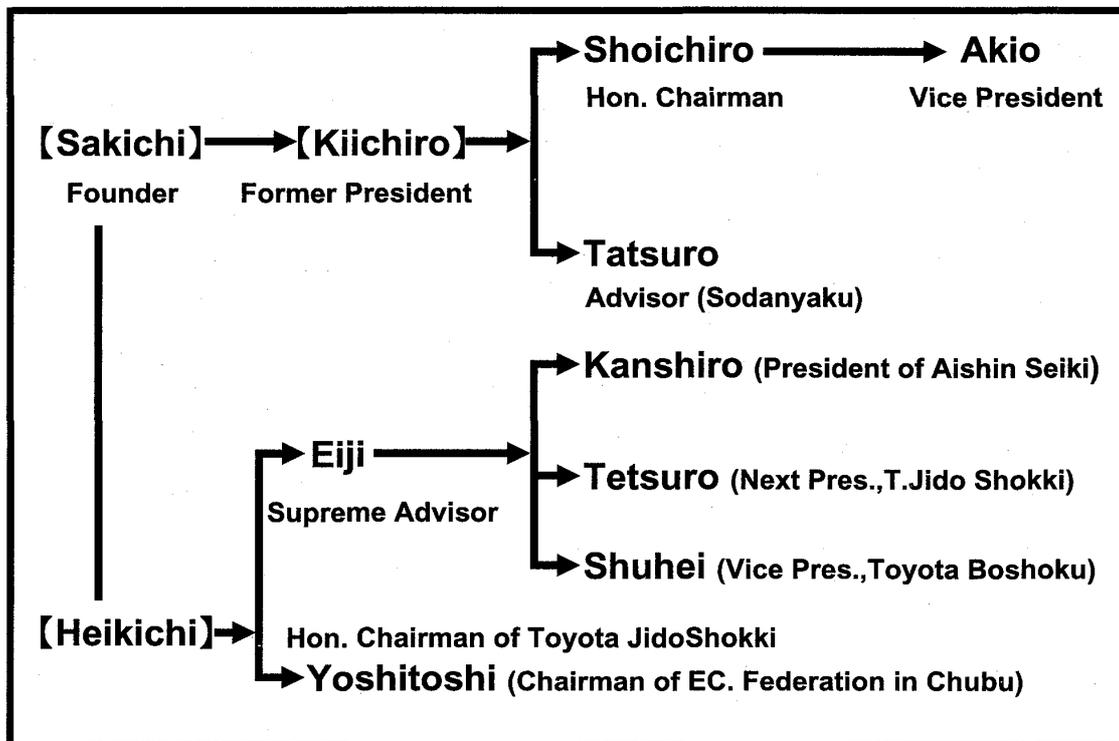
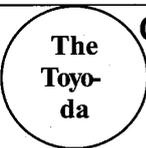


Chart 4.

CEO Change Model from the Old to the Young Generations Toyota Executives Change in June, 2005

Position	Old	New (2005)
Honorable Chairman	Toyoda, Shoichiro (79)	Toyoda, Shoichiro (79)
Chairman	Okuda, Hiroshi(72)	Okuda, Hiroshi(72)
Vice Chairman	Ikebuchi, Kosuke(67)	Cho, Fujio(68)
Vice Chairman	Nakagawa, Katsuhiko(62)	Nakagawa, K(62)
CEO, President	Cho, Fujio(68)	Watanabe, Katsuaki(62)
Vice President	Saito, A.(64)	Uranishi, T.(64)
Vice President	Araki, T(65)	Okamoto, K.(60)
Vice President	Ishizaka, Y(65)	Sausazu, T.(60)
Vice President	Shiromizu, H.(64)	Kinoshita, M(59)
Vice President	Watanabe, K(62)	Inaba, Y.(58)
Vice President	Iwatsuki, K(62)	Uchiyamada, T(58)
Vice President	Takimoto, M.(59)	
Vice President		Toyoda, Akio (48)

Expected Change in 2010:

<p>Educational System for the Old Boys & Family Head =CEO in Group.</p>	 <p>The Toyoda</p>	<p>CEO, President, Toyoda, Akio (53) Family Network for Developing the Next</p>
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Successful Ways for Educating the Heir in the Toyoda Family

- Live Together With Parents and Learn the Family Culture
- The Close Family Ties: the Ancestor Tomb & Meetings
- Qualified Tutors to Enter a Good University
- Good Friends Selected & Arranged Marriage
- Main Player Opportunities Given for Career Development
- Avoid Failure and Demonstrate Success in Given Jobs
- International Education & Job Experience in Major Lines
- Best Assistants Placed to Support him

V. Toyota Corporate Governance

1. Corporate Governance, Fundamental Principles and Toyota Management Philosophy

Corporate governance consists of fundamental principles of that company's management philosophy. Apart from the restrictions of the law, the company culture and corporate ethics are the central pivot about which all employees are guided regarding understanding, behavior and personal and company responsibilities.

Regarding corporate governance, as Toyota competed with the more advanced Western automakers, they went toward a corporate governance stressing equality, while also incorporating their inherent Japanese culture as management resources (things, money, people, technology, machines, information and culture).

Toyota Company is located in the Japanese countryside (the 'sticks'). Regional culture is always a step behind the central (Tokyo) metropolitan culture and city civilization. Aware of these shortcomings, Toyota has always been very sensitive to world level movements and patterns, avidly collecting information and investing as much money as needed. **Chart 5** pictures this balance between the pre-modern and post-modern points.

So as seen in this **Chart 5** Toyota's management philosophy is in a two layered structure of traditional and modern, in a mid-balance cross blending of Japanese and Western ways which continues the Emperor image system that serves to adjust the whole with a 'big Japanese family' philosophy.

Another corporate principle is a dualistic-monism in a management physical body theory and this can be used to describe the Toyota-type corporate culture. As the human body structure is made up of various internal organs, etc. and the whole package held together by the body wall, so also there are the facilitating principles and restraining principles in a double layered structure. In the same way, Toyota's corporate culture and management philosophy are made up in a double layered structure of porcupine 'protectionism' and the foxes attacking strategies and tactics, diagrammed in **Chart 6**.

Chart 5.

**Toyota Corporate Culture and Growth Dynamism
Mid. Balance Power Sustainability:
Tradition and Post Modern Optimally Mixed Point**

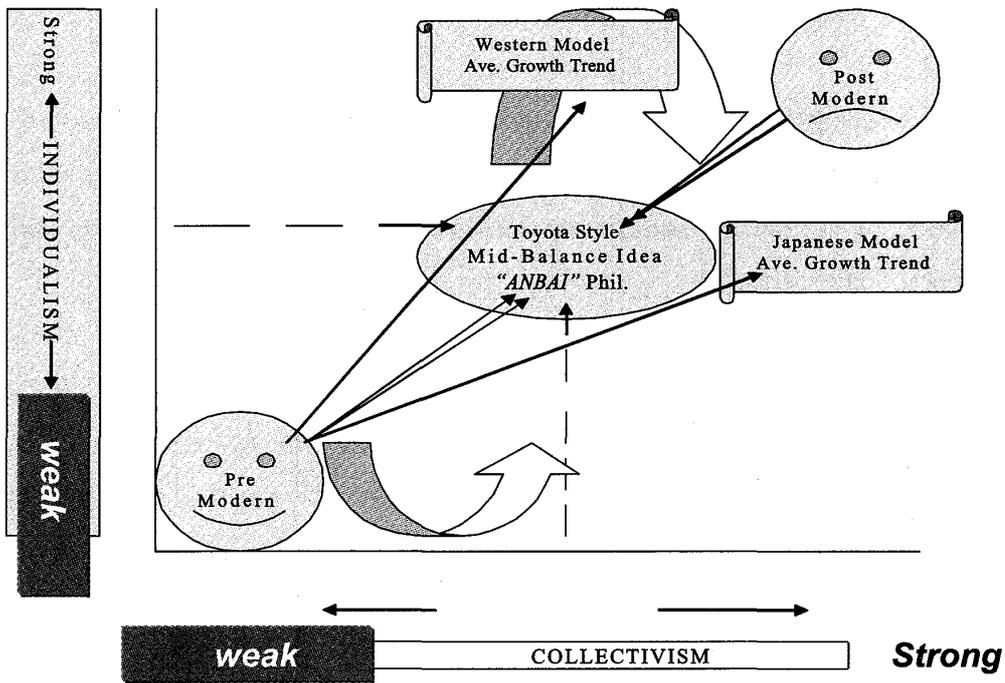
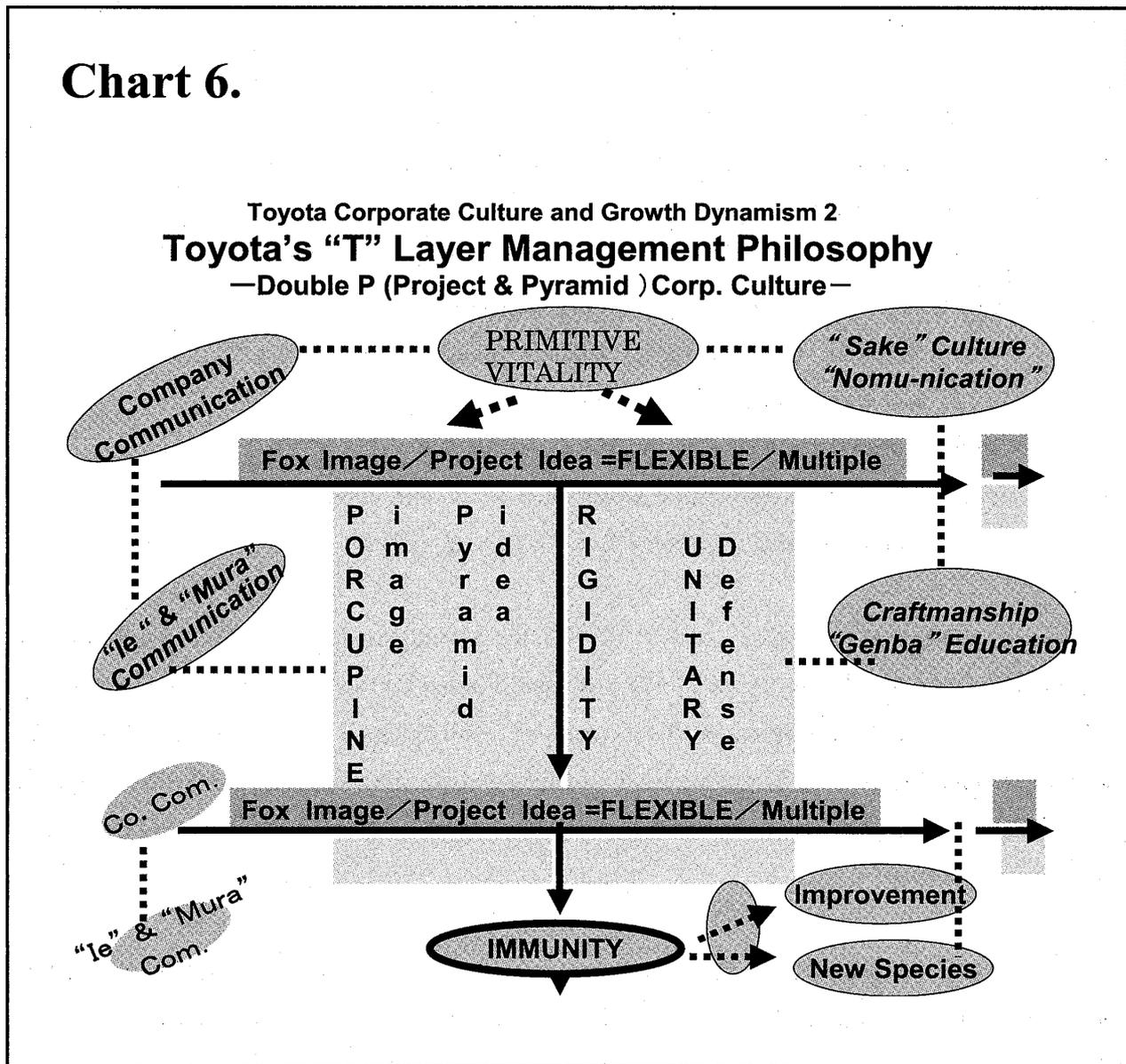


Chart 6.



2. Regional Environment and Corporate Governance

Basis for Linkage and Continuity

Toyota's corporate culture has been tied in with the regional culture in Toyoda City and neighbor cities and towns, which still preserve Japanese traditional values system of work ethics and strong community identity.

Those community mind sets are correlated to Toyota Group business ethics and 'Toyota Keiretsu' corporate culture. Let us take an example regarding 'Sanctuary-zation' of Linkage Management in Chart 2, Western idea globalism and Indigenous idea localism are linked by the

following work ethics and corporate culture in the Toyota group.

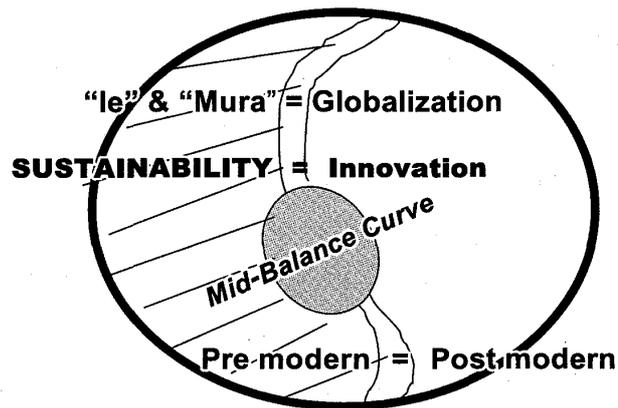
- (a) 3Ks---DNA of working class mentality/cultural mentality:
 - (1) 'Kibishii' (hard), (2) 'Kitanai' (dirty), (3) 'Kiken' (dangerous)
- (b) 3Ks---DNA of executive class mentality/cultural mentality:
 - (1) 'Kenkyo' (humility), (2) 'Kansha' (appreciation), (3) 'Kiki' (crisis)
- (c) 4 Disciplines: Work discipline: local culture = corporate culture
 - (1) 'Junboku' (simplicity), (2) 'Richigi' (integrity)
 - (2) 'Setsuyaku' (thrift, frugal), (4) 'Chuko' (loyalty)
- (d) Profit making and success in TPW-----good cars
- (e) Low pay for executives and selflessness of Toyoda family
- (f) Glocal management: Global + Local = Synergy Effects

In addition to 'Sanctuary-zation' of Linkage Management in **Chart 2**, Tradition and Post-modern Optimally Mixed Point shown in **Chart 5** indicates the corporate governance image of Toyota Corporate Group Management in terms of "Mid-Balance Power Sustainability". The following **Chart 7** shows the 5 symbol images of the catalyst value systems which are the linkage philosophies of Localism and Globalism in the Toyota's way of corporate business ethics and corporate governance.

Toyota's corporate governance foundation consists of ideal models of craftsmen's culture and family culture, rooted in Yin Yang of the Golden Mean with an all encompassing spirit of rationalism. Said in another way, Toyota-type corporate governance are tied with the 5 linkage philosophies (evolutionary, religious, family, emotional, and educational)—it is a very spiritual-like science-religion.

Chart 7.

Toyota's Linkage Philosophy Catalyst Value System Between Light and Shadow



Mid-Balance Curve: 5 Linkage Philosophies / Life-Employment System
① Evolutionary, ② Religious, ③ Family, ④ Emotional, ⑤ Educational

3. Limitation in Toyota Production Ways and Recent Corporate Governance Problems Faced by Toyota

Toyota Production way is facing the following limitation.

Concerns about Maintaining Toyota Success

- ★ Global Competition and Maintaining TPW, Future Cost Cutting and QC Performance, Guest Workers in Japan.
- ★ Institutional Fatigue, Bureaucracy and Arrogance
- ★ Global Capitalism & Broken Linkages in Toyota Group, TOB Defense and Faster Growth in Subsidiaries.

Fortunately Toyota Way of Human Capitalism is still strong with favorable Cash Flow & Craftsmanship or “*Shokunin*” Culture.

Toyota's corporate governance problems are also the front line management problems facing all Japanese corporations. And these problems relate to the future development and growth of environmental conditions along the route to management globalization.

Now let's enumerate these problems that Toyota faces and is working on.

- (1) Maintaining quality control in Japanese located factories with foreign labor problems.
- (2) On the homefront in the regional society there are cultural conflicts with the foreign laborers.
- (3) Related companies in the 'Keiretsu' have internationalized, grown and are taking independent steps away from the group.
- (4) Environmental conditions, technical innovation of information, changes in the people relating to product development competition.
- (5) Strategic construction projects in BRICs (Brazil, Russia, India and China) and the diversity of related development, especially corporate development in China.
- (6) Entering new industries and city development such as airport construction, inner city renovation, port development and such related distribution industries.
- (7) Strengthening management control of related companies (not owned by Toyota), by sending vice presidents, thereby maintaining the relationship and assisting with cost control.
- (8) Toyota has from managing a specific company, developed into an economic leader in the industrial world, then finally financial leader who can move the Japanese economy while metamorphosing to take on centralized responsibility—thereby strengthening influences in the political and Governmental spheres.

Toyota's management history is a locus of maintaining risk control, continually challenging and overcoming. And this history knows more than any other company, the limitations of dependence on Government and dependence on capital. They rely on their greatest resources which are the 'Genchi' (location), 'Genba' (site), 'Genbutsu' (resources) and that recognition is to know the origin of Toyota's corporate governance, and work motivation propelled by strong religious ethics and a solid belief in science.

4. Toyota Way of Life-long Employment Corporate Culture

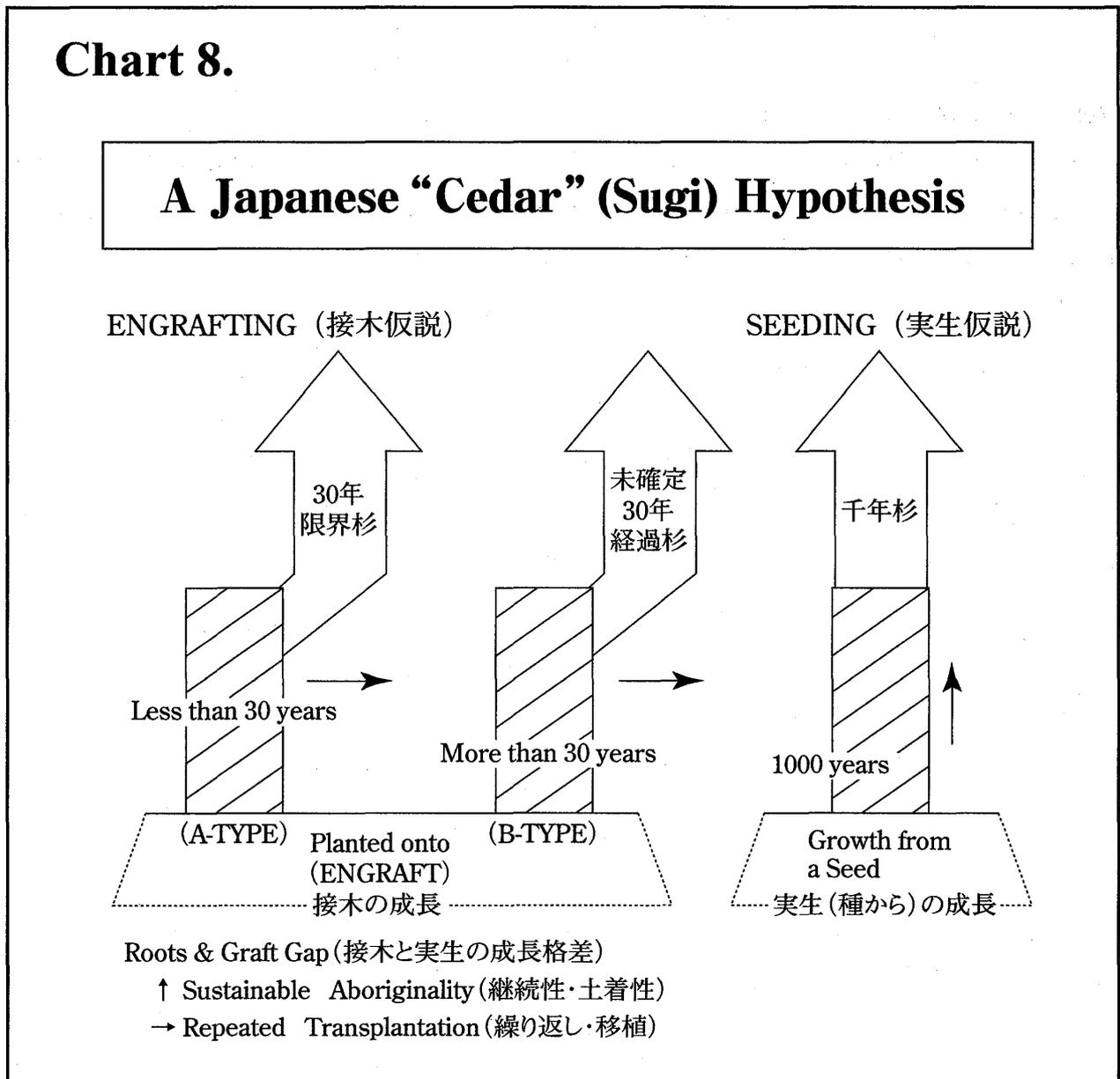
Current corporate governance issues in Japan are reforming the internal control system. Those corrective governance approaches are mostly based upon European and American management ways of innovative management practice and theories responding to changes and

needs in reality of local / global business conditions.

However we must not forget to pay attention to business ethics and corporate culture in conjunction with governance and compliance issues. Corporate culture in Toyota is regarded as business ethics or organizational morals for individual discipline.

In other words, Toyota, by all means, will maintain the Toyota Way of Life-long Employment System (TWLES) with continuous adjustments. Why can they do that ? The answer is quite simple. TWLES is built into the regional community and families where Toyota Groups can survive.

Chart 8 illustrates the life-long employment system in Toyota which is symbolized as



“cedar growth from a seed”. A cedar grown from a seed in nature can live as long as 1,000 years and we can see those lasting cedars in the old shrines and temples in Japan.

On the contrary, engrafted cedars may not survive more than 30 years, in spite of the higher speed growth. Corporate governance without business ethical culture may be like these engrafted cedars and will always look for any possible substitutes to meet the demand of subsequent corporate governance after a 30 year elapse.

Thus, TWLES is part of the internal control system with ethics and culture, and this can be traced back to the unspoken tacit knowledge of “ie” (family) and “mura”(local community) prevailing among the Toyota organizational men.

Reference Books in Japanese:

Motofusa Murayama: *Strategies and Philosophies — Executives Development Theories*, 2005, Bunshindo, Tokyo, Motofusa Murayama ed., *Glocal Management Strategies and Nagoya Business Cultures*, 2006, Bunshindo, Tokyo.