The Emergence and Transformation of the Divisional Management and Accounting Systems in the House of Mitsui, 1673–1872

Noboru NISHIKAWA
Kanagawa University

Among the newly established merchants who began to gain prominence from around the middle of the seventeenth century once the Tokugawa regime had stabilized, and the large merchants that would appear in the Tokugawa Period later, there were several that formed a network of shops in the three large cities of Kyoto, Edo (now Tokyo), and Osaka and in other castle towns and that, therefore, had a multidivisional structure.¹ We learn from historical documents on present-day accounting that in the fourth quarter of the seventeenth century the use of double-entry bookkeeping spread among them and that this was useful for maintaining control of a

decentralized organization.2

The purpose of this paper is to take up the case of one of those new merchants—the House of Mitsui—and to trace the development, as well as the transformation, of its management system and the concomitant accounting system.3 The House of Mitsui, which would one day play a leading role in Japan’s modernization after the Meiji Restoration (1868) and would develop into a huge economic empire known as the Mitsui Zaibatsu by the early twentieth century,4 carried on business in the two main fields of silk fabric trade and banking


3 This paper is a condensation of chapters 1 to 4 of my book Mitsui-ke kanjo kanken [A study of the accounting system in the House of Mitsui] (Hakuto Shobō, 1993). (Chapters 5 and 6 of the book deal with methods of ledger entry and other bookkeeping techniques.) In the production of the book I made use of the historical documents on accounting kept in the Mitsui Research Institute for Social and Economic History (in Nakano-ku, Tokyo; in Japanese it is known as the Mitsui Bunko). The Institute has approximately 100,000 source materials; apart from reference works (including manuscripts from the Tokugawa Period and old maps) and microfilms, there are about 66,000 primary sources called Mitsui ke kiroku bunsho [House of Mitsui archival collection], of which over 46,000 are from the Tokugawa Period and the rest from the Meiji Period or later. Most of the materials from the Edo Period are accounting documents, but of these there are few of the books that were kept daily; by far the great majority are financial statements and other relevant detailed documents. Ōmotokata [great headquarters] financial statements are to be found almost intact from the start of the 1710 financial year to the end of the 1892 financial year. The financial statements of individual shops are also there, almost intact, and including documents with relevant particulars, from the start of 1818 to around 1871; earlier documents are only fragmentary, but from summaries of financial statements and duplicates it is possible to know something about financial matters from about 1720 on.


NISHIKAWA: Divisional Management in the House of Mitsui from 1683 through 1871. The period to be dealt with in this paper is the 200-year period running from 1673, when the silk fabrics business was founded, up to the huge organizational reform that was made in 1872, when the House of Mitsui divested itself of the silk fabrics business.

GROWTH OF THE HOUSE OF MITSUI BUSINESS AND ITS ACCOUNTING RECORDS

OPENING OF THE FABRIC AND BANKING SHOPS AND THE COLLECTIVE GUIDANCE SYSTEM ADOPTED AFTER THE FOUNDER'S DEATH

The founder of the Mitsui business empire, Takatoshi Mitsui (1622-1694), left his hometown of Ise-Matsusaka (present-day Matsusaka City in Mie Prefecture) at the age of thirteen to work in a fancy goods shop in Edo owned by his eldest brother, Toshitsugu Mitsui. The third-eldest brother in the family, Shigetoshi Mitsui, was already helping in the shop. Edo had become the seat of government of the Tokugawa family at the end of the sixteenth century, and in the 1630s the sankin kotai system requiring daimyos to reside in Edo every second year had been firmly established, and these factors led to its becoming the largest city in the world, with a population of over one million people by the beginning of the eighteenth century. From around the 1630s the Mitsui and many other merchants from the Matsusaka area, which was a commercially advanced region, would set up shops in Edo, a rapidly growing high-consumption city. It so happened that Toshitsugu had expanded his business to include the sale of silk fabrics and kimonos, so he set up a silk-fabric stock wholesaling shop in Kyoto, which he himself managed, and he entrusted the management of the Edo shop to his younger brother Shigetoshi. Takatoshi was sent to Edo to help in his brother's shop.

Another thing that must be remembered is that many of the powerful silk fabric traders at that time were setting up their principal shops in Kyoto in the form of stock wholesaling shops and would open retail branches in Edo. The reason for doing this was Kyoto's preeminence in regard to the collection and processing of silk fabrics. Since silk fabrics must go through dyeing and finishing processes before finally becoming merchandise, and these processes were almost completely the monopoly of the Kyoto area, the outlying regions of the coun...
try that were engaged in producing "semiprocessed silk fabrics" had very close ties with Kyoto.

In 1649 Takatoshi Mitsui returned to Matsusaka, where he married and produced with his wife ten sons and five daughters. When his eldest brother, Toshitsugu, died in 1673, Takatoshi, who was 51 at the time, opened the "Edo Kimono Shop" (Edo Gofuku-dana). At almost the same time he opened a silk-fabric stock wholesaling shop in Kyoto, naming it the "Kyoto Kimono Shop" (Kyoto Gofuku-dana). In charge of the latter he put his eldest son, Tahakira (1653–1737), and in charge of the former, his second son, Takatomi (1654–1709); both of them, along with the third son, Takaharu (1657–1726), had been working in the shops owned by Toshitsugu. Takatoshi himself stayed in Matsusaka, whence he sent instructions to both shops and made frequent trips between Matsusaka and Kyoto. His fourth son, Takatomo (1659–1729), who had turned 14, he sent first to the Kyoto Kimono Shop and then later to help out at the Edo Kimono Shop.

Takatoshi's silk fabric business enjoyed a remarkable growth. In 1676 the Kyoto Kimono Shop was moved to new premises and expanded, and in 1681 he owned the "Kyoto Kimono Buying Shop" (Kami-no-tana), which specialized in Nishijin goods. In 1683, concomitant with the move of the Edo Kimono Shop to new premises, Takatoshi also opened up the "Edo Banking Shop" (Edo Ryōgae-dana; lit., Edo money-exchange shop). Mitsui was not the only large silk fabric dealer to operate a banking shop on the side; there were several others doing it as well. This was due to the need to send the money from sales in Edo by money order to Kyoto to purchase stock, and also to the fact that, because the Kyoto-Osaka area's economy was based on silver, while the Edo area's was based on gold, a great deal of interest was paid to the gold-silver exchange rates. When Takatoshi decided to take up residence in Kyoto in 1686, he also opened the "Kyoto Banking Shop."

The following year Takatoshi separated the organization that sold Kanto silk and cotton from the Edo Kimono Shop and set it up independently as the "Edo Cotton Fabric Shop" (Edo Wata-dana). In the same year his eldest son, Tahakira, was named a purveyor to the Bakufu government, so Takatoshi made the sale of silk fabrics to the government a separate business from that of the Edo Kimono Shop, and he called it the "Edo Kimono Purveyor Office" (Edo Goyōsho). In
1690: Mitsui was appointed to transact the Bakufu's official moneys exchange. This public moneys exchange involved the money exchanger's receiving money from the Bakufu's Osaka treasury and, using money orders, depositing it with the Bakufu treasury authorities in Edo in 60 or 90 days. This meant that the money exchanger was able to use huge sums of money interest free for either two or three months. In 1691, therefore, Takatoshi opened an Osaka Banking Shop, and at the same time opened the Osaka Kimono Shop. And in 1692, an operation that had been one section within the Kyoto Kimono Shop became an independent organization under the name *Kyoto Kimono Purveyor Office*. Takatoshi had thus expanded the Mitsui business operations at a phenomenal speed within the space of twenty years. But then at the end of March 1693, Takatoshi was laid low by illness, and his second son, Takatomi, who had been overseeing the various Edo shops, moved to Kyoto, where Takahira and the third son, Takaharu, were living. Father and sons discussed how the inheritance was to be handed on, and the result was recorded in February 1694 as Takatoshi's last testament. It determined that there would be no splitting up of all the business operations but that all the brothers and sisters would be joint owners, with each person's equity share allocated proportionally. Takatoshi died approximately three months after the will was drawn up. The following year (1695), a set of regulations governing shop duties and shopworkers was produced. In 1703, a system was inaugurated that made the senior employee at each of the principal shops the chief executive officer of the shop, acting in place of the owner. On the basis of a suggestion from Sosuke Nakanishi (1676-1733), who was 27 years old when he became the chief executive officer of the Kyoto Kimono Shop as a result of this move, the Edo Kimono Shop, which had been managed independently until then, was in 1705 placed under the management of the Kyoto Kimono Shop, and thus was formed the fabric shop chain (*hon-dana ichimaki*). Afterwards, Takatoshi's fourth son, Takatomo, who had been working full-time in Edo, moved to Kyoto to join his brothers there, and the system of collective guidance under Takatoshi's four oldest sons began to take shape from this time.
For the period from Takatoshi Mitsui’s start of his businesses in 1673 up to 1710, the year in which the general headquarters (the Omotokata, meaning ‘big, great’ and Motokata meaning ‘proprietor, controller’) for the whole of the House of Mitsui’s business operations came into being, very few accounting documents remain. Among the documents kept in the Mitsui Bunko, however, there can be found Edo Kimono Purveyor Office financial statements for both halves of 1691, the second half of 1692, and both halves of 1693; duplicates recording the contents of Kyoto Kimono Purveyor Office financial statements from the first half of 1693 to the second half of 1705; and duplicates recording the contents of Kyoto Kimono Shop financial statements from the first half of 1694 up to the end of 1701.

A financial statement of the Edo Kimono Purveyor Office consisted of a trading account (which showed the amount of stock at hand at the beginning of the period, the amount of goods laid in during the period, the amount of sales during the period, the amount of stock at the end of the period, and the gross margin), a fund statement, a net income statement, and a balance sheet. In these financial statements we can find such imperfections as the sum of cash inflow (including cash remaining at the beginning of the period) and the sum of cash outflow (including cash remaining at the end of the period) not agreeing, or there being considerable discrepancies (especially in the early financial statements) between the net income calculated in the balance sheet and the net income shown in the statement of profit and loss. Still, double-entry bookkeeping was being aimed at. In the duplicates of the Kyoto Kimono Purveyor Office financial statements, on the other hand, in the earliest periods the gross margin is calculated, but not only are there no entries of expenses or net income and an incomplete statement of profit and loss, there also is no balance sheet. Nevertheless, partway through, the net income on the statements of profits and loss and the net income on the balance sheets begin to agree; not only that, but all the numerical figures, including those on the trading accounts and the fund statements, are entered as debits and credits and agree exactly, so that it becomes perfect double-entry bookkeeping. In the duplicates of the
Kyoto Kimono Shop financial statements, however, from the first one for the first half of 1694 to the last one for the second half of 1701, there is a consistent lack of double-entry bookkeeping. For the Kyoto Kimono Shop, too, we find there were produced consolidated balance sheets for the four periods from the first half of 1694 to the second half of 1695, covering that shop, the Edo Kimono Shop, and the Osaka Kimono Shop; these consolidated balance sheets were full of imperfections from an accounting point of view, and they are believed not to have been derived from ledger records but produced by way of an inventorial list.

One may well ask what is the reason for these differences with regard to double-entry bookkeeping among the three shops: the Edo Kimono Purveyor Office, the Kyoto Kimono Purveyor Office, and the Kyoto Kimono Shop. It is hardly thinkable that, within one and the same House of Mitsui it was only the shopkeeper in charge of the Kyoto Kimono Shop who could not understand the calculation principle involved in double-entry bookkeeping. Most probably the principle of double-entry bookkeeping itself had been passed on to Mitsui long before. Understanding the logic of calculation, and carrying that logic through all the calculation procedures, are problems of two different dimensions. It is believed that, because the Kyoto Kimono Shop was such a large organization, putting its accounting system into proper order could not be done so easily. Along with this (or even more than this), it is believed that the Kyoto Kimono Shop’s financial dependence upon the Kyoto Banking Shop hindered the proper ordering of its accounting practices, and that this was another significant aspect. Another possibility is that the proper ordering of the accounting system was delayed until the inception of the “fabric shop chain” in 1705 because, even though, from the point of view of goods flow, the three kimono shops were intimately linked in that items purchased in Kyoto were sold in Edo and Osaka, yet the three of them were each operated and managed independently.

Still, one can wonder if the advanced age, illness, and death of the founder, Takatoshi, might not have been what made the Mitsuis keenly aware of the importance of bookkeeping accounting as a means to control the numerous shops that had been opened in Kyoto, Edo, and Osaka. That would seem to explain why the duplicate entries of financial statements for the Kyoto Kimono Shop and
the Kyoto Kimono Purveyor Office began around the time of Takatoshi’s death, and why the extant financial statements of the Edo Kimono Purveyor Office are all concentrated in the three years leading up to the move of residence to Kyoto of Takatomi, who had been in overall control of the Edo shops (in many of the cases in which House of Mitsui accounting documents survive only fragmentarily for a certain year, the reason is not that these items survived by accident but that it was a year in which something momentous happened; they have the nature of documentary evidence that bookkeeping accounting was being practiced). When one looks carefully at the colophons of the accounting reports one finds that those of the Edo Kimono Purveyor Office are addressed to Takahira by the two salaried managers, while those of the Kyoto Kimono Shop are from Takayoshi (sixth son of Takatoshi; 1662–1704) and are addressed to three people: Takahira, Takatomi, and Takaharu. On the statements of accounts from the Kyoto Kimono Purveyor Office we find the seal of Takahira stamped over all the important totals. The fact that there are differences between the purveyor offices and the Kyoto Kimono Shop in the senders and addressees possibly indicates that, in small-scale shops like the two purveyor offices, administrative power and accountability had already passed over to the salaried managers, but in an important shop like the Kyoto Kimono Shop, at this stage at any rate, things had not yet reached the stage where authority and responsibility were handed over to the salaried manager.

FORMATION AND DEVELOPMENT OF THE HOUSE OF MITSUI ŌMOTOKATA AND ITS ACCOUNTING SYSTEM

FOUNDED OF THE HOUSE OF MITSUI ŌMOTOKATA AND PROGRESSIVE ORGANIZATIONAL REFORM

After Takatoshi Mitsui’s death organizational reform continued. The key figures in the production of concrete proposals were, on the Mitsui family side, Takatomi, the second oldest son, and, on the side of the employees, Sōsuke Nakanishi. Takatomi was to pass away in 1709, but the opinion of Nakanishi, who proposed the founding of a central body, a general headquarters, to exercise general control over all
Mitsui business operations and over the domestic economies of the nine houses (later eleven) making up the Mitsui family, was adopted, and January 1710 saw the inception of the central organ that was called the Ōmotokata.

Along with the inception of the Ōmotokata three shops—the Kyoto Kimono Buying Shop, the “Edo Second Kimono Shop” (Edo Honchō Nichōme-dana), and the Osaka Kimono Shop—joined the Edo Kimono Shop in being under the management umbrella of the Kyoto Kimono Shop, so that now the “fabric shop chain” numbered five shops. Graph 1 shows that at this point in time there were nine

Graph 1. The House of Mitsui's Ōmotokata System, 1710

shops under the direct control of the Ōmotokata: the Kyoto Kimono Shop, the Edo Cotton Fabric Shop, the “Kyoto Silk Yarn Shop” (Kyoto Ito-dana), the Kyoto Kimono Purveyor Office, the Kyoto Banking Shop, the Edo Banking Shop, the Osaka Banking Shop, the “Matsusaka Shop,” and the “Edo Onagigawa Shop” (Onagigawa being a place-name). Later, in 1719, the Edo and Osaka banking shops went under the management of the Kyoto banking shop, and in this way the “banking chain” (ryōgae-dana ichimaki) was formed. Then in 1729 the Edo Cotton Fabric Shop was put under the control of the Kyoto Kimono Shop, with the result that, except for the Matsusaka Shop, all the shops run by the House of Mitsui belonged either to the “silk fabric chain” or the “banking chain.” In addition, the “Kyoto Ainomachi Yarn Shop” that the House of Mitsui acquired in 1727 through managerial subrogation was added to the “fabric shop chain,” then was put directly under the Ōmotokata, and finally in 1735 was switched over to the “banking chain.” This produced the situation shown in Graph 2, a situation that continued until 1775, when the eleven houses belonging to the Mitsui family were to divide into three groups.

While this trend towards direct control of shops by the Ōmotokata was continuing, equity ownership in the Ōmotokata was in 1721 restricted to the current heads of the nine Mitsui family households, and the current heads’ proportion of equity ownership in the Ōmotokata was settled. The equity aggregate was set at 220, and this was divided in such a way that the eldest son’s house received 62, the second son’s house 30, the third son’s house 27, the fourth son’s house 25, and the ninth and tenth sons’ houses 22.5 apiece. (Takatoshi’s fifth son had been adopted into a different family, and his sixth, seventh, and eighth sons had died young.) The husbands of Takatoshi’s daughter and two granddaughters were considered founders of new houses and these three households (called “linked houses”) received 8, 7, and 6, respectively. At this point in time a surplus of 10 was set aside as well. These quotas remained unchanged (except for the surplus 10) right through the Edo Period. The current head of each house would receive from the Ōmotokata fixed dividends, or funds for family living costs, that were calculated taking the equity number as the base.

Seen from the standpoint of legal form, the Ōmotokata could be described as a family partnership in which the equity owners were the
current heads of the nine (later, 11) Mitsui family households. The Ōmotokata had almost nothing to do with the work-site operations of its businesses; it had a holding company function of owning equity in its subsidiary shops, and each of the subsidiary shops carried on business in its own name. Seen from the standpoint of administrative form, however, the whole of the Mitsui business operations can be said to have been a multidivisional organization with the Ōmotokata serving as the head, or general, office. The Ōmotokata planned and carried out organizational reform, appraised the performances of the subsidiary shops, allocated and shifted personnel, leased shop premises, and decided on the allotment of necessary funds. Each of the shops or “chains” that belonged directly under the control of the Ōmotokata was a profit center and had the character of a self-supporting
division. Still, the responsibility that each shop making up a “chain” had for turning a profit differed, as will be explained in the next two subsections of this paper, depending on the “chain” in question.

**THE ACCOUNTING SYSTEM IN THE “FABRIC SHOP CHAIN”**

In the House of Mitsui the “fabric shop chain” had far more employed help than the “banking chain.” The number of employees in the six shops making up the “fabric shop chain” in 1733, for example, came to 683, whereas the total number of people employed in three of the shops in the “banking chain” for which we have figures was 66 in 1724; in 1800 the Edo and Osaka banking shops employed a total of 60 people, and in 1879 this number stood at 87. As far as profit figures go, in the beginning the “fabric shop chain” was overwhelmingly more profitable, but in 1760 the two “chains” were almost equally matched (see Table 1 at the end of this section).

Within the “fabric shop chain” each of the shops under the Kyoto Kimono Shop had to produce statements of accounts and relevant detailed documents consisting of trading accounts, fund statements, statements of profit and loss, balance sheets, etc., which they sent to the Kyoto Kimono Shop, where these financial statements were audited. At the same time the Kyoto Kimono Shop produced its own statement of accounts and a statement of accounts derived from a consolidated balance sheet and consolidated statement of profit and loss for the whole of the “fabric shop chain.” These statements, along with the relevant detailed documents, the statements of accounts of each of the subsidiary shops, and their relevant detailed documents, were then all presented together to the Ōmotokata, where they, and similar financial statements from the “banking chain,” were audited.

Within the “fabric shop chain” each shop stood apart as an accounting unit, but its profit responsibility status, that is, whether it was self-supporting or not, was not universally the same. When the “fabric shop chain” was formed in 1705 out of the silk-fabric purchasing Kyoto Kimono Shop and the selling Edo Kimono Shop, it is believed

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5 It was 1132 people in 1772, when the total number of employees peaked.

6 We do not have figures for the Kyoto Silk Yarn Shop and the Kyoto Aimonachi Yarn Shop.

7 We do not have figures for the Kyoto Banking Shop.
that the latter ceased being a profit center; since no relevant financial statements are extant, however, this is not clear. After the establishment of the Ốmotokata in 1710, the Edo Kimono Shop had a constant deficit account because the (internal transfer) purchasing prices of goods sent to it from the Kyoto Kimono Shop were set at the sales prices (though there was an allowance for raising or lowering the ticketed prices within a permissible range), so, except for goods the shop had purchased itself, it was unable to record a gross margin. It might be noted in this connection that in the first and second halves of 1711, of the Kyoto Kimono Shop’s sales 80% and 78%, respectively, were to the Edo Kimono Shop, while 83% and 84%, respectively, of the purchases of the Edo Kimono Shop were dependent on the Kyoto Kimono Shop.

At the time of the establishment of the Ốmotokata in 1710 the three shops of the Kyoto Kimono Buying Shop, the Edo Second Kimono Shop, and the Osaka Kimono Shop joined the “fabric shop chain,” and at this point in time each of these three shops was a profit center. At the Osaka Kimono Shop its own purchases and purchases from the Kyoto Kimono Shop were approximately equal, while at the Edo Second Kimono Shop its own purchases were more numerous; not only this, but both shops determined the selling prices of goods purchased from the Kyoto Kimono Shop by adding on their own profit margins.

The Kyoto Kimono Buying Shop, being a purchasing shop, sold over 90% of the goods it purchased to the Kyoto Kimono Shop, at a price that had a profit markup added to its purchase price. Furthermore, the proportion of all the goods purchased by the Kyoto Kimono Shop occupied by goods purchased from the Kyoto Kimono Buying Shop was approximately 15% in 1710 and 21% in 1743.

Thus in 1710 the “fabric shop chain,” which was in the nature of a single division of Ốmotokata subsidiaries, had within its own organizational structure a sort of functional separation into a principal section (the Kyoto and Edo kimono shops) to which was attached a secondary section (the Kyoto Kimono Buying Shop, the Edo Second Kimono Shop, and the Osaka Kimono Shop). When the Kyoto Kimono Shop produced the consolidated balance sheet and consolidated statement of profit and loss for the whole of the “fabric shop chain,” it dealt with the investment in, and profits of, the three shops
(which were all considered to be profit centers) in the same way as if it were applying to a completely owned subsidiary an equity method that a parent company today would apply to an associated company. In other words, it added the profits of each of the three shops to its own earnings, and it would increase its investment accounts in the three shops, which made up its assets, for an amount equivalent to what each shop's profits were (since double-entry bookkeeping was being used, each item always was both a debtor and a creditor). In contrast, when it came to the Edo Kimono Shop, it showed net assets after mentioning the totals of assets and liabilities and produced a consolidated balance sheet, but in the consolidated statement of profit and loss Edo Kimono Shop's net loss was added in with Kyoto Kimono Shop's own expenses.

In 1723 the Osaka Kimono Shop lost its standing as a "division" (i.e., as a profit center) and the aggregate gross margin of the three kimono shops of Kyoto, Edo, and Osaka started being calculated within the consolidated accounts of the "fabric shop chain" as a whole; in their accounting treatment in the consolidated balance sheet and in the statement of profit and loss, too, both the Edo and the Osaka kimono shops were dealt with the same way. As a result, the Osaka Kimono Shop, like the Edo Kimono Shop, always ended up with a deficit account. Later, in 1729, the Edo Cotton Fabric Shop lost its status of being one "division" directly under the control of the Ōmotokata and became a subsidiary of the Kyoto Kimono Shop, joining the "fabric shop chain," and changed its name to the Mukaidana Fabric Shop. In the process, however, its character as a profit center did not change, but the Kyoto and Osaka Cotton Fabric shops were absorbed, respectively, into the Kyoto and Osaka Kimono shops. The matter of investment in the Mukaidana Fabric Shop and the matter of its profits were, just as with the Kyoto Kimono Buying Shop and the Edo Second Kimono Shop, dealt with by means of the equity method.

**THE ACCOUNTING SYSTEM IN THE "BANKING CHAIN"**

When the "banking chain" was formed in 1719 two shops were subordinated to the Kyoto Banking Shop: the Edo Banking Shop and the Osaka Banking Shop, but a few years later the Kyoto Silk Yarn Shop and the Kyoto Ainomachi Yarn Shop were also made subordinate to it. The reason why these two silk yarn wholesalers were not put with-
in the "fabric shop chain" but the "banking chain" is not merely that they did not do their purchasing or selling on their own accounts but acted as "commission houses," acquiring handling fees through consignment sales, but perhaps more from the fact that approximately one-half of their earnings came from interest on advances made to silk yarn producers, from money order fees, and so on, so that the running of these two shops was closely connected the Kyoto and Edo banking shops.

Just as in the case of the "fabric shop chain," each of the shops in the "banking chain" produced its own statement of accounts and relevant detailed documents, which were then presented to the Kyoto Banking Shop. But the statement of accounts of the "banking chain" shops was a two-pronged affair of a balance sheet and a statement of profit and loss (which can be interpreted as being either a multistep statement of profit and loss or a statement of income and retained earnings). The Kyoto Silk Yarn Shop and the Kyoto Aino-machi Yarn Shop differed from all the other Mitsui shops, and the Ōmotokata itself, in that it produced only one statement of accounts a year. Furthermore, before the Osaka Banking Shop presented its statement of accounts to the Kyoto Banking Shop, it produced exact copies of the contents of the accounts. (Most of the statements from the first half of 1728 to the second half of 1763, and from the first half of 1794 to the first half of 1859, are extant. It is believed that the other Mitsui shops also did the same thing.) Anyway, at the Kyoto Banking Shop its own statement of accounts was then produced, in the production of which it dealt with the investment and profits of the shops under its umbrella either through the equity method or some similar method; this statement, along with its relevant detailed documents, was then presented to the Ōmotokata together with the statements and relevant detailed documents of all its subordinate shops. Before doing so, however, it produced duplicate records of its own statement of accounts and those of its subordinate shops (almost all of the statements of the three banking shops from 1790 onwards are extant).

The "banking chain," which when seen from the point of view of the Mitsui business operations as a whole was equivalent to one division, could also itself be seen as being organized along the lines of a scaled-down multidivisional structure. That is, the Kyoto Banking
Shop itself and its four subordinate shops each was a self-supporting profit center. Still, the Kyoto Banking Shop was also carrying out work-site operations in concert with the Osaka and Edo banking shops. Consequently, rather than seeing the "banking chain" itself as being organized along multidivisional structure lines, it might be better to see the organization as one in which the three banking shops were bound in a main office-branch office relationship, with the two silk yarn wholesalers added on as a secondary section. The three banking shops in Kyoto, Edo, and Osaka each had a reserve for bad debts and a reserve for construction drawn from its funds, but in the final calculation of profit appropriation they were treated as one unit. That is to say, the residual profit of the two subordinate banking shops after the above two reserves were deducted was transferred in its entirety to the Kyoto Banking Shop, and both the reserve for employees' bonuses and the reserve for employees' retirement allowances were, for all three shops together, accumulated in the Kyoto Banking Shop.

In the two silk yarn wholesalers (the Kyoto Yarn Shop and the Kyoto Ainomachi Yarn Shop), in contrast, not only the bad debt and construction reserves but even the reserves for employees' bonuses and retirement allowances were those two shops' own net profit distribution items. As well, if actual profit exceeded standard profit, the extra profit was not transferred to the Kyoto Banking Shop but held over in those shops. It is possible that these differences between the two banking shops and the two silk yarn wholesalers that were subordinate to the Kyoto Banking Shop reflected differences in the type of business they were carrying out. Still, that may not be the only reason; perhaps another reason might be the fact that both of the two silk yarn wholesalers were shops not originally founded by the Mitsui family itself but shops that became a part of the Mitsui organization through forfeited pawn or managerial subrogation.

THE ACCOUNTING SYSTEM OF THE ŌMOTOKATA

The Ōmotokata waited for the Kyoto Kimono Shop and the Kyoto Banking Shop to present their financial statements and those of their subordinate shops every settlement term (i.e., every half year) before producing its own statement of accounts. As a result its statement of accounts would be completed and then reported and approved at a meeting of the Ōmotokata from three to four months after the settlement date.
(this meeting would always be attended by from two to five influential members of the Mitsui family and the senior-ranking employees of the Kyoto Kimono Shop and the Kyoto Banking Shop).

The statement of accounts of the Ōmotokata was made up of three parts: a balance sheet, a statement of profit and loss, and a calculation of equity. Up until the partitioning of the enterprise in 1775 when the Mitsui family split into three groups, premises were not reckoned in the balance sheet but the sum paid to acquire a premise was shown on the statement of profit and loss as an expense, while the sum received from sale of a premise was shown as a revenue; consequently, in the calculation-of-equity portion of the statement the appraised value of premises was added and a revised computation of capital stock was made. Until 1775 all the premises owned by the House of Mitsui belonged to the Ōmotokata. Now, while the net assets of Mitsui's Kyoto Kimono Shop and Kyoto Banking Shop were separately classified as fixed capital investment from the Ōmotokata, or unappropriated retained earnings, or reserves, the Ōmotokata treated owners' equity from which the reserves were excluded as its capital stock. Hence, in the calculation-of-equity portion of the Ōmotokata's statement of accounts, first of all the net income was added to the amount of capital stock without premises from the end of the previous period, from this total the reserve transfer sums were subtracted (sometimes, however, the transfer sums to a reserve were entered in the statement of profit and loss, and sometimes cash receipts from loan interest were not acknowledged as earnings and placed directly into a reserve without going through the step of being counted as income or capital), and the sum for capital stock without premises at the end of the period was worked out. Next, to that total was added the appraised value of premises, to show a revised end-of-period capital stock value. Then the capital stock with premises was divided by 220, the total number of equities, multiplied by the equity held by each house in the Mitsui family (62 for the eldest son, 30 for the second son, etc.), to give the equity total for each house.

The total amount of assets (without premises) of the Ōmotokata for the first half of 1722 came to 12,254 kan (the living expenses for one year of a family of three living in a city was approximately one kan); 9,798 kan, or 79.9% of the total, was the balance of investments in and loans to the shops under its control (45.2% to the Kyoto Kimono
Shop, 25.5% to the Kyoto Banking Shop, and 9.2% to the other shops), and 13.3%, or 1,626 kan, was money hoarded away in an underground cellar and similar places for emergencies. On the other hand the capital liabilities of the Ōmotokata consisted of 10,153 kan (82.8%) of capital stock without premises, and 389 kan (3.1%) and 1,019 kan (8.3%) of money entrusted to it by the Kyoto Kimono Shop and the Kyoto Banking Shop, respectively, with most of the remainder being reserves. Borrowing money from sources outside the House of Mitsui was forbidden by the House regulations, and Ōmotokata liabilities from external sources stood at this time at no more than 29 kan (0.24%). In addition, premises were worth 2,980 kan, and revised capital stock was 13,133 kan.

As mentioned earlier, the Ōmotokata disbursed funds to the shops under its control. During the period up to the partitioning of the enterprise in 1775 these investments and loans could be divided into three types: 1) loans at interest in response to the demands for funds of the subordinate shop (the higher the loan balance the lower the rate of interest); 2) fixed capital investments instead of receiving from the shops fixed returns or dividends; 3) transferring the retained earnings of the shops every six periods (i.e., every three years).

In Mitsui up to 1774 there was a special settlement called the "triennial settlement," in which one-tenth of the residual profit that was left after all the reserves were deducted and that had been retained by the shops for three years was set aside as bonuses for managers and other employees, and nine-tenths were, by means of an equity-method arrangement, transferred to the profits and assets (investment account) of the Ōmotokata. For each of the shops this transferred sum became a liability to the Ōmotokata, but instead of being paid to the Ōmotokata all at once they were paid in installments of approximately one-tenth the amount owing, over several years (with interest charged to the shops on the unpaid balances); three years later a new retained earnings would be added on. I have quoted the figures which Dr. Kagawa compiled for the Kyoto Kimono Shop and Kyoto Banking Shop (Table 1), showing, in Column A, the amount of retained earnings transferred to the Ōmotokata in the "triennial settlement," the Ōmotokata's investment account balance (yearly installment accounts receivable) in Column B, and the total amount of installment payments to the Ōmotokata over the three years, in Column C.
PARTITIONING THE ENTERPRISE
AND CHANGES IN ACCOUNTING STRUCTURE

CHANGE IN THE NATURE OF THE ÖMOTOKATA SYSTEM
AND ENTERPRISE PARTITIONING

The form of management structure and the accounting structure based on it that were described in the preceding section remained formally unchanged until 1774. Still, from the second half of the 1750s the Ömotokata encountered increasing financial difficulties and gradually lost its function of allotting funds to the whole enterprise. These

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### Table 1. Triennial Settlements: Retained Earnings Transfers, Investment Account Balances, and Annual Installments to Ömotokata

<table>
<thead>
<tr>
<th>Periods</th>
<th>Kyoto Kimono Shop</th>
<th>Kyoto Banking Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>1725-1727</td>
<td>1,827</td>
<td>5,395</td>
</tr>
<tr>
<td>1728-1730</td>
<td>1,870</td>
<td>5,165</td>
</tr>
<tr>
<td>1731-1733</td>
<td>2,541</td>
<td>5,606</td>
</tr>
<tr>
<td>1734-1736</td>
<td>3,503</td>
<td>7,009</td>
</tr>
<tr>
<td>1737-1739</td>
<td>4,005</td>
<td>8,614</td>
</tr>
<tr>
<td>1740-1742</td>
<td>3,662</td>
<td>9,577</td>
</tr>
<tr>
<td>1743-1745</td>
<td>3,611</td>
<td>10,188</td>
</tr>
<tr>
<td>1746-1748</td>
<td>3,926</td>
<td>10,949</td>
</tr>
<tr>
<td>1749-1751</td>
<td>2,156</td>
<td>9,711</td>
</tr>
<tr>
<td>1752-1754</td>
<td>1,887</td>
<td>8,578</td>
</tr>
<tr>
<td>1755-1757</td>
<td>2,323</td>
<td>8,219</td>
</tr>
<tr>
<td>1758-1760</td>
<td>1,558</td>
<td>7,203</td>
</tr>
<tr>
<td>1761-1763</td>
<td>2,586</td>
<td>7,521</td>
</tr>
<tr>
<td>1764-1766</td>
<td>567</td>
<td>5,724</td>
</tr>
<tr>
<td>1767-1769</td>
<td>306</td>
<td>4,203</td>
</tr>
<tr>
<td>1770-1772</td>
<td>1,145</td>
<td>3,977</td>
</tr>
</tbody>
</table>

Note: Column A is the amount of retained earnings transferred to the Ömotokata. Column B is the Ömotokata’s balance of the investment account (yearly installment accounts receivable): \( B_1 = B_0 - C_0 + A_1 \). Column C is the total for the three years of the yearly instalments paid to the Ömotokata.

difficulties stemmed from bad debts receivable in two problem areas: loans to daimyos (the House of Mitsui was placed in a position in which it could hardly refuse the requests for loans being made by its feudal lord, the Tokugawa family of Kishū, and other Bakufu daimyos), and loans to members of the Mitsui family (having grown accustomed to luxurious lifestyles, some found that the fixed returns, or dividends, that they were receiving from the Ōmotokata were insufficient to meet their needs, and so they would resort to borrowing from the Ōmotokata).

From Graph 3 it would appear that, following the reduction in the nominal figures for receivables and payables in 1719 in the wake of the Bakufu's switch from the old gold and silver currency to a new gold and silver currency, up to 1774 the Ōmotokata's capital stock was increasing at a steady favorable pace. Still, of the 82,063 kan of total assets without premises held by the Ōmotokata at the end of the second half of 1774, 46.5% (38,141 kan) were bad debts receivable, mostly in the form of loans to daimyos (36.8%) and loans to Mitsui family houses (8.5%), and 18.1% (14,880 kan) were fictitious assets. These fictitious assets represented the cash that had been hoarded in underground cellars and the like for emergencies, but that had been washed away when the money was diverted for operating funds given to shops strapped for funds or for daimyo loans, and yet was still entered into the ledgers every time it was diverted, as a fictitious liability of the same amount as the amount washed away. On the other hand, the Ōmotokata's capital and liabilities for the same period stood at 50,099 kan of capital stock without premises, 11,751 kan of reserves, and 14,880 kan of fictitious liabilities, with 5,333 kan worth of debts payable from pure borrowing from external sources. In addition it had 8,372 kan of premises, so that the revised capital stock with premises was 58,471 kan.

Besides the problems caused by increasing bad debts receivable and fictitious assets, there were problems within the House of Mitsui itself. Discord that arose in the 1730s and 1740s over who would take over the name Hachiriōemon in representing the House of Mitsui or because of the way in which Takahira Mitsui's eldest son, Takafusa (eldest son in the third generation, 1684–1748), added two households to the number of houses that were equity owners in the Ōmotokata (hiving off 3 and 2.5 worth of equity from the 10 that had earlier been set aside for surplus) for the sake of his own sons, came to a head
in the 1750s and 1760s because of the disparities among the houses in the amount of loans taken out by them from the Ōmotokata. Again, in the 1760s, when the senior-ranking employees referred to as “Nakanishi's direct apprentices” had all gone, there was a shortage of talented employees. In the midst of these conditions the sales of the “fabric shop chain” showed a long-term falling trend from the 1750s (see Graph 4), and profits plunged in the second half of the 1760s (see Table 1). On top of this the profits of the “banking chain” dropped sharply from the end of the 1760s (see Graph 5). As a result, in 1774 the decision was made to carve up the enterprise, and the partitioning was implemented from 1 January 1775.

Prior to the partitioning the bad debts receivable and fictitious assets were written off. The fictitious assets and fictitious liabilities crossed each other out; to extinguish the debts receivable, all of the reserves were eliminated and capital stock without premises was reduced by 53%, to 23,709 kan.

As a result of the partitioning the eleven houses in the House of Mitsui were divided into three groups. The four houses where Taka-fusa's own children were the reigning heads (whether by natural child inheritance or adoptive inheritance or by new establishment)—that is, the eldest son’s, the third son’s, and the two new linked houses—took possession of the “fabric shop chain”; four other houses (the second son’s, the fourth son’s, the ninth son’s, and the tenth son’s) took possession of the “banking chain” and a portion of the premises; and the three original linked houses (A, B, and C) took possession of a portion of the premises as well as the Matsusaka Shop. To leave its legal status and public image intact the Ōmotokata itself continued in existence even after the partitioning, and there were no changes made in the equity ownership proportions held by the eleven houses in the Ōmotokata. After the partitioning the Ōmotokata retained the Mitsui family residences and the premises of all the Mitsui shops, a portion of other premises, and unrepaid debts receivable.

**EFFECT OF PARTITIONING OF THE ENTERPRISE ON ACCOUNTING STRUCTURE**

In the statements of accounts produced by the Ōmotokata after the partitioning of the enterprise, premises begin to be counted in the assets portion of the report, the same as other assets. The reports become more clear-cut, and calculation of the capital stock also becomes a
GRAPH 3A
Fluctuations in Ōmotokata Capital Stock
(Hōei 7–Kansei 3; 1710–1791)
GRAPH 3B
Fluctuations in Ómotokata Capital Stock
(Kansei 3–Meiji 4; 1791–1871)
GRAPH 4A
Fluctuations in “Fabric Shop Chain” Profits
(Kyōhō 4–Kansei 9; 1719–1797)
GRAPH 4B
Fluctuations in “Fabric Shop Chain” Profits
(Kansei 9–Meiji 4; 1797–1871)
GRAPH 5A
Fluctuations in “Banking Chain” Capital Fund (Kyōhō 5–Kansei 7; 1720–1795)
GRAPH 5B
Fluctuations in “Banking Chain” Capital Fund
(Kansei 7–Meiji 3; 1795–1870)
form of capital stock with the appraised value of premises included. Because the account for investment in and loans to the shops is separated from the Ōmotokata's assets, the massive income at the end of every six periods that came with the transfer of each subordinate shop's retained earnings in accord with the "triennial settlement," and the fixed return paid in at the end of every period, disappears from the earnings part, and the rent income from premises also decreases sharply. Nevertheless, even though with sums reduced to one-tenth of what they were before, the Kyoto Kimono Shop and the Kyoto Banking Shop each have to transfer to the Ōmotokata a fixed return every period. Since funds for family living costs and similar expenses no longer are paid to each house in the Mitsui family, the total amounts appearing in the Ōmotokata's expenses portion are greatly reduced, but even so, since total expenses exceed total earnings and the Ōmotokata is constantly in the red, the transfer payments from the Kyoto Kimono Shop and the Kyoto Banking Shop have to be increased. Finally, the reason there is a sharp drop in Ōmotokata capital stock in 1817 (see Graph 3) is that there is an adjustment of the bad assets that had been carried over as unpaid debts at the time of the partition.

After the partitioning of the enterprise a new structure was introduced into the "fabric shop chain" between the four Mitsui houses that owned it and the Kyoto Kimono Shop: the "Uchimotokata" (lit., "inner controller"). Since no Uchimotokata financial statements have been found among the extant historical documents, not much is known about how it worked, but it is believed that the relationship of the Kyoto Kimono Shop to the Uchimotokata would not have been greatly different from its relationship to the Ōmotokata before the partition. The accounting system of the "fabric shop chain," including the contents of the consolidated financial statements and the financial statements of each of the subordinate shops, underwent no basic change, and even the "triennial settlement" continued in force.

In the "banking chain" a Shinmotokata (lit., "new controller") was set up between the four Mitsui houses and the Kyoto Banking Shop after the partitioning. In this chain, however, the "triennial settlement" was for all practical purposes abolished, with the exception of one item: the amount to be set aside for bonuses for the managers and other employees was still decided every three years. Also, the Shinmotokata was an organization whose only purpose was to separate
the housekeeping expenses of the four houses from the business operations of the shops, and whose principal function was to receive the fixed return or dividend from the Kyoto Banking Shop and pay out the fixed dividends or funds for family living costs to the heads of the four houses; it did not have a fund allocation function or a managerial decision-making function. The accounting system of the Kyoto Banking Shop underwent several changes, because of the split from the Ōmotokata and the abolishment of the “triennial settlement,” as far as methods of dealing with profits and showing capital goes, but in the accounting systems of the subordinate shops no direct influences of the partitioning of the enterprise can be found.

REUNION AND SUBSEQUENT ACCOUNTING SYSTEMS

In the second half of 1797, a little over twenty years after the partition, a reunion of the eleven Mitsui houses that had been split into three groups was effected in a manner that practically returned to the Ōmotokata the assets and equity that had been separated from it in 1775. The result of the reunion was that the Ōmotokata received in return for its investments in and loans to the shops a fixed return or dividend from them and paid to the heads of the eleven houses, as equity owners, fixed dividends or funds for family living costs—in other words, it revived its holding company function. But it did not revive its function as the general office in a multidivisional organization, that of exercising general control over an entire enterprise made up of decentralized units and allocating business resources to those units. As far as the funding aspect goes, the “triennial settlement,” according to which the subordinate shops transferred to the Ōmotokata their retained earnings every third year, was not revived. In other words the post-reunion Ōmotokata’s principal source of revenue was the fixed returns or dividends from the Kyoto Kimono Shop and the Kyoto Banking Shop, so the Ōmotokata was making a fresh start in a form in which, right from the beginning, it could not have any but a limited fund allocation function.

When we look at the accounting system of the “fabric shop chain” we find that, internally at least, the “triennial settlement” was carried on as before. But, whereas approximately 90 percent of retained earnings of the Kyoto Kimono Shop had been transferred first to the
Ōmotokata, then, after the partition, to the Uchimotokata put in place only within the “fabric shop chain,” after the reunion these retained earnings were changed into the Kyoto Kimono Shop’s own capital fund. Aside from this point, the accounting system in the “fabric shop chain,” including the contents of the financial statements of each of the subordinate shops, showed absolutely no change after the reunion.

Even in the “banking chain,” where the “triennial settlement” had for all intents and purposes been abolished, no direct influences of the reunion can be found on the accounting system, with two exceptions: a few changes in the method of showing the Kyoto Banking Shop’s capital items, and the elimination of a fixed dividend to the Shinmotokata, which was abolished after the reunion.

The revival after reunion of common ownership by the eleven houses of Mitsui assets gave back to the Ōmotokata the function of overall control of housekeeping that it had earlier, but whereas before it exercised control over the enterprise and housekeeping at one and the same time, now it was impossible to see any resuscitation of its function of control over the enterprise. Rather, it could be said that, by setting up between themselves and the House of Mitsui families a buffer in the form of the Ōmotokata, the operating shops had chosen a structure that made it possible for them to accumulate their own capital without any connection with the livelihoods of the families. Nevertheless, the Ōmotokata was in no position to regulate effectively the sumptuous profligacy of the families; as soon as a regulation prohibiting the families from borrowing from the Ōmotokata were made, the families would start borrowing money from other merchant houses, and in the end it would be the Ōmotokata that would have to shoulder their debts payable. Thus the increase in the Ōmotokata’s capital stock seen in Graph 3 is for the most part due to increases in Mitsui family borrowings.

After the 1830s the foundations of the Tokugawa Bakufu regime were beginning to weaken and social unrest was increasing. In the midst of this turmoil, in 1849 the Ōmotokata, its funds in extremely short supply, reduced the fixed dividends or funds for family living costs that it gave to the families by one-third and removed the two linked houses that had been founded by Takafusa from the roll of those who owned equity in Ōmotokata. The business results of the
fabric shop chain," which from the partitioning in 1775, through the reunion in 1797, right up to the mid-1810s had somehow managed to maintain profits on an even keel, started to deteriorate noticeably from the 1830s, and around 1870, in the economic environment that followed the opening of the ports in the late Tokugawa Period, when the prices of such raw materials for silk fabrics as raw silk rocketed because of increased exports, the business virtually went bankrupt. Even the "banking chain," which after the reunion had steadily built up its net assets, fell into a business recession after the 1840s (the rises seen from the 1850s in Graph 5 are due to inflation). After the Meiji Restoration, the House of Mitsui, anticipating a revival through a reorganization of its financial operations, detached all of the textile-related shops from the Ōmotokata.