The Entrepreneurial Activities of Eiichi Shibusawa
– the Creation of a Joint Stock Company System in the Prewar Period and the Role of the Investor-Executive –

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I AN OVERVIEW OF PREVIOUS RESEARCH

EICHI SHIBUSAWA was one of the outstanding entrepreneurs of modern Japan, and it is natural that many scholars have referred to his achievements. They also refer in particular to his close relationship with government in such terms as: ‘the outstanding leader of private capitalism in this country’ (Tsuchiya, T., 1939); ‘the facilitator of the business world’ (Ōshima, K. et al., 1976); ‘an ideologue of the bourgeoisie’ (ibid.); ‘he was an organizer, a guide, an instructor and a spokesman.’ (Morikawa, H., 1976); or ‘a bridge between businessmen and the bureaucrats’ (Hirschmeier, J., 1965)1. It is no doubt because there were so few others performing these functions that particular attention was paid to his role as an organizer of the business world, to his nurturing of modern industry, extracting protection from the Government, and to his contribution to the dissemination of economic ethics, through such works as Rongo Soroban Setsu [The Analects and the Abacus] and Dōtoku Keizai Gōitsu Setsu [On the Unification of

1. Apart from Tsuchiya’s work, there has been remarkably little systematic research on Shibusawa (Tsuchiya, T., 1939, 1959, 1967, 1988). However, Shibusawa is almost always referred to in research on other entrepreneurs and businessmen of the prewar period, and these references to him nearly all agree in regarding him as the leader of Japanese capitalism and of the Japanese business world.
Morality and Economics].

Among the above, the greatest accumulation of research to do with Shibusawa is that concerning economic thought, business ethics, and value systems (Seoka, M., 1976, 1977, Asano, T., 1991, Ō, K., 1994, Umezu, J., 1995, Matsukawa, K., 1999, Sakamoto, S., 2002, 2004, etc.). This research, utilizing a variety of approaches, has made great progress in clarifying the way in which Shibusawa tied Confucian morality – the traditional Japanese value system – into modern economic thought. However, it is fair to say that almost no attention has been paid to his ideas on economic policy or his perceptions of East Asia, which are inextricably linked to his activities as an entrepreneur. His significance in the history of politics and international relations as an unofficial diplomat has been covered, but virtually no mention has been made of his activities in East Asia (centering on the Korean peninsula) or of his ideas concerning these.

On the other hand, attention has been paid to his foundation of a large number of modern industries, using the joint-stock company framework. Yukio Chō referred to the following two achievements of Shibusawa in this context: ‘(1) the joint-stock organization, and his introduction of a comprehensive range of modern industries, and (2) the eradication of the idea that the bureaucracy was superior to the private entrepreneur, which resulted in raising the social status of the businessman’ (Shibusawa, E., annotated by Chō, Y., 1984). Further, Yoshio Tsugai (1980) notes the importance of his role as ‘organizer of the industrial enterprise’. These scholars’ evaluation of Shibusawa draws particular attention to his active promotion of the joint-stock form of company organization, carrying this through to the foundation of a large number of industrial enterprises (see also Abe, E., 1996).

In recent years, reflecting in part the need for the reform of business systems, there has been a renewal of interest in Japan in research on the entrepreneur, the businessman, as the protagonist of reform. This has prompted an evaluation of Shibusawa from a different perspective. Matao Miyamoto, for example, has focused afresh on entrepreneurial activity, with ‘a renewed appreciation of the strategic importance of the individual in economic phenomena.’ (Miyamoto, M., 1999) Concerning Shibusawa he says ‘Shibusawa’s most notable activity as an entrepreneur was his promotion of the foundation of corporations.’
Further, he points out that this function was exercised not only at the foundation stage, but that 'he selected and directed the supervisory staff who in practice were to function as top management' and also had to take responsibility for the operation of the companies, reconciling conflicting interests by protecting supervisory staff who came under pressure from major shareholders. He characterizes Shibusawa as representative of the innovative entrepreneur, possessed of 'animal spirit', and for the first time assigns a high value to Shibusawa's role as a manager of corporations after their initial foundation.

From a survey of previous research on Shibusawa, we can see that almost no empirical research has been carried out into his establishment and management of private-sector enterprises. This surely should precede any judgment of his achievements.

Table 1 is a list of high-income earners in 1898, combined with a list of the major shareholders in 103 large corporations, restricted to actual managers by the exclusion of members of the Peerage, etc.. From the Table it is clear that Shibusawa name indeed appears high on the list of major shareholders, as a promoter, and was also a typical example of the invester-executive, acting as President or Director of a large number of corporations.\(^2\) Shibusawa was above all an independent entrepreneur, located in the private sector. Not only was he the promoter and facilitator of the foundation of a large number of companies, but frequently provided leadership in their foundation by investing in them himself. The record of his activities also shows that he took on responsibility for the operation of many of these companies by assuming the post of President (often referred to at the time as ‘Chairman’) or Director. Despite these facts, we have to say that there has been a lack of balance in the treatment of Shibusawa, with his entrepreneurial activities being the subject of little empirical research, while his role as 'organizer of company foundation' has been emphasized, thus

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2. According to Kanji Ishii, Shibusawa ranked 17\(^{th}\) on the list of high-income earners in 1898 (Ishii, K., 1972). Further, an analysis of the major shareholders of 103 of the largest companies in Japan by Naosuke Takamura shows Shibusawa in 25th position (Takamura, N., 1996). Research by Tsuneo Suzuki, Yōichi Kobayakawa and Kazuo Wada shows that the total capital of the 31 companies of which Shibusawa was a director in 1898 amounted to ¥126 million, far surpassing any other, being 1.5 times the figure for the next highest on the list, Tanaka Ichibei, whose 21 companies had a total capitalization of ¥84 million (Suzuki, T., Kobayakawa, Y., Wada, K., 1999).
Table 1 List of High Income-Earners and Investors in Multiple Companies

<table>
<thead>
<tr>
<th>Name, etc.</th>
<th>Location</th>
<th>Ranking in 1898 Tokyo &amp; Yokohama high-income earners list</th>
<th>Ranking in list of major shareholders in 103 major companies in 1898</th>
<th>Number of directorships in 1898</th>
<th>Occupation, affiliation, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hisaya Iwasaki</td>
<td>Tokyo</td>
<td>1</td>
<td>3</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Hachirōemon Mitsui</td>
<td>Tokyo</td>
<td>2</td>
<td>4</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Kichiemon Sumitomo</td>
<td>Osaka</td>
<td>4</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Zenjirō Yasuda</td>
<td>Tokyo</td>
<td>6</td>
<td>7</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Kihachirō Okura</td>
<td>Tokyo</td>
<td>8</td>
<td>*</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Keiijirō Amamiya</td>
<td>Tokyo</td>
<td>13</td>
<td>6</td>
<td>7</td>
<td>Head of Busō Chūō Railroad, nickel-siver trade</td>
</tr>
<tr>
<td>Teijirō Nomoto</td>
<td>Tokyo</td>
<td>*</td>
<td>10</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Wakao Family (Ikuzō Wakao)</td>
<td>Kanagawa</td>
<td>*</td>
<td>12</td>
<td>12</td>
<td>Raw silk merchant, Head of Yokohama Wakao Bank</td>
</tr>
<tr>
<td>Heihachi Tanaka</td>
<td>Kanagawa</td>
<td>*</td>
<td>13</td>
<td>15</td>
<td>Raw silk merchant, President of 120th National Bank</td>
</tr>
<tr>
<td>Magoroku Adachi</td>
<td>Shizuoka</td>
<td>*</td>
<td>16</td>
<td>*</td>
<td>Agriculture, landlord</td>
</tr>
<tr>
<td>Shūzō Toyama</td>
<td>Osaka</td>
<td>*</td>
<td>18</td>
<td>12</td>
<td>President of Naniwa Bank, Manager of Commercial Credit Agency</td>
</tr>
<tr>
<td>Shinshichi Tanaka</td>
<td>Kanagawa</td>
<td>*</td>
<td>19</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Jūtarō Matsumoto</td>
<td>Osaka</td>
<td>14</td>
<td>30</td>
<td>28</td>
<td>Imported cloth merchant, President of Dailhyakusanji Bank</td>
</tr>
<tr>
<td>Seirōko Moroto</td>
<td>Mie</td>
<td>*</td>
<td>22</td>
<td>*</td>
<td>Forest management, cereal merchant</td>
</tr>
<tr>
<td>Rokusuke Hara</td>
<td>Tokyo</td>
<td>*</td>
<td>23</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Eichi Shibusawa</td>
<td>Tokyo</td>
<td>18</td>
<td>25</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Hikotarō Abe</td>
<td>Osaka</td>
<td>19</td>
<td>21</td>
<td>19</td>
<td>Cereal merchant in Osaka</td>
</tr>
<tr>
<td>Zenzaburō Hara</td>
<td>Yokohama</td>
<td>20</td>
<td>*</td>
<td>12</td>
<td>Merchant in Yokohama</td>
</tr>
<tr>
<td>Ichibei Furukawa</td>
<td>Tokyo</td>
<td>22</td>
<td>*</td>
<td>*</td>
<td>Ashio Copper Mine</td>
</tr>
<tr>
<td>Sōbe Mogi</td>
<td>Yokohama</td>
<td>23</td>
<td>*</td>
<td>*</td>
<td>Merchant in Yokohama, President of Daini Bank</td>
</tr>
<tr>
<td>Zen'emon Kōnoike</td>
<td>Osaka</td>
<td>25</td>
<td>*</td>
<td>*</td>
<td>Kōnoike Bank</td>
</tr>
<tr>
<td>Fukuzaburō Watanebe</td>
<td>Yokohama</td>
<td>26</td>
<td>*</td>
<td>9</td>
<td>Merchant in Yokohama, Head of Yokohama International Warehouse</td>
</tr>
<tr>
<td>Kajirō Kameda</td>
<td>Tokyo</td>
<td>*</td>
<td>29</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Fujita-gumi</td>
<td>Osaka</td>
<td>*</td>
<td>31</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Tsukamoto Partnership</td>
<td>Kyoto</td>
<td>*</td>
<td>32</td>
<td>*</td>
<td></td>
</tr>
</tbody>
</table>

differentiating him from other ‘ordinary’ entrepreneurs.

It is commonly stated that Shibusawa established as many as 500 companies, but there has been little detailed study of the characteristics of these companies, compared, for example with the companies in the so-called zaibatsu concerns, or even with other non-zaibatsu companies. In the Meiji period, it was almost taken for granted that a ‘businessman’ was an executive who had also invested in a firm. Despite this fact, there has been little investigation of the methods by which Shibusawa was able to continue to take on and perform the role of investor-executive. His main achievement tended to be seen as that of promoter/founder – the role he performed, for example, in the establishment of the Osaka Spinning Company, where he set up a company requiring massive amounts of capital by soliciting a large number of investors.

In view of the above, the author decided to investigate in detail Shibusawa’s actual activities as an industrialist and businessman, and add to the existing evaluation of Shibusawa an assessment of Eiichi Shibusawa, corporate operator and manager. This reassessment appeared as Shimada: The Entrepreneurial Activities of Eiichi Shibusawa – The Creation of the Joint-Stock Company System in the Prewar Period and the Role of the Investor-Executive (Nihon Keizai Hyöronsha, 2007, 412 pp.) In addition, by incorporating separate discussions of hitherto disregarded but important issues, such as his economic activities in East Asia and their ideological background, and his view of economics that underlay these economic activities, the author believes that he was able to provide for the first time an accurate evaluation of Shibusawa. The outline below follows the arguments in this volume.

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3. The empirical clarification of Shibusawa’s role as investor-executive from dual perspectives of investment and management is a highly meaningful task. We should investigate in detail the significance of the fact that when (as noted by Tsuneo Suzuki, Yóichi Kobayakawa and Kazuo Wada in their comparison of the situation in 1898 and 1907) the investors’ group led by Jūtarō Matsumoto and Ichibei Tanaka withdrew from their positions of leadership, the number of companies in which Shibusawa was involved did not decrease at all.
II ANALYTICAL PERSPECTIVE AND CHAPTER FORMAT

Why is it that there has been no empirical research concerning the entrepreneurial activities of Eiichi Shibusawa? It is of course well known – though in a fragmented fashion – that Shibusawa was involved in the foundation of a large number of companies, that he invested in them, and served on their boards of Directors. One of the reasons that this type of research made little progress was no doubt because of the amazing diversity of his economic activity, evidenced by the fact that (if the Annexes are included), the *Shibusawa Eiichi Denki Shiryō* [*Materials Concerning the Life of Eiichi Shibusawa*]) extends to as many as 68 volumes. This diversity has made it difficult to understand the whole picture. The fact that, despite the huge volume of historical material, there is little data concerning investment and funding is no doubt a further important reason for the paucity of analysis in this area.

Given these various legitimate factors making empirical analysis difficult, it is necessary to lay down some clear guidelines if we are to approach the task of analyzing Eiichi Shibusawa’s entrepreneurial activities. A variety of approaches are possible, but the one that the author has adopted here is that of tracing interpersonal networks and the flow of funds, or to put it another way, the characteristics of top management and the mechanisms for the procurement of funds.

Additionally, the circumstances of Shibusawa’s economic advance into East Asia (particularly Korea) and the perceptions that lay behind this will also be discussed. The nurturing of a modern banking industry ranks with the promulgation of the joint-stock company system as one of Shibusawa’s most important activities, and for the Daiichi Bank, which was the key element of his banking enterprise, their activities in Korea were absolutely essential. Shibusawa was also actively involved in the construction of railroads in Korea. The friction with the Great Powers after the end of the Sino-Japanese War brought home to Shibusawa the importance of the state in economic activity, and caused a dramatic change in his economic thinking. Shibusawa’s perceptions of East Asia and his actions there are an important theme when discussing his activities in the late Meiji period.

The contents of the above-mentioned volume are structured as follows:
Preface

Part 1  An outline of Shibusawa’s entrepreneurial activities
  Chapter 1  Outline of companies in which he held management posts
  Chapter 2  Involvement in the promotion and foundation of companies
  Chapter 3  His role and functions in shareholders’ meetings

Part 2  Personal networks
  Chapter 4  Top management: promotion, investment and management techniques
  Chapter 5  Investment and management networks
  Chapter 6  The education and organization of managers through the Ryūmonsha

Part 3  Financial networks
  Chapter 7  One year’s finances: focusing on household income and expenditure in 1891
  Chapter 8  The long-term financial trend: focusing on investment behavior 1891 – 1931
  Chapter 9  The provision of funding and credit: long-term analysis 1891 – 1931
  Chapter 10  The advance of the Daiichi Bank into Korea

Additional discussion  Economic policy proposals at the time of the Sino-Japanese and Russ-Japanese wars, and changes in his economic views.

Conclusion  Eiichi Shibusawa’s creation of the joint-stock company system, and his investor-executive model

III INSIGHTS GAINED FROM PART 1 ‘AN OUTLINE OF SHIBUSAWA’S ENTREPRENEURIAL ACTIVITIES’

In Part 1 the author first described the whole extensive range of Eiichi Shibusawa’s entrepreneurial activities. I analyzed in turn three
levels of Shibusawa’s involvement: the companies in which Shibusawa assumed directorial posts; the companies in which he was involved at the stage of their promotion and establishment; and finally his involvement in shareholders meetings, where the interests of shareholders and management came into conflict.

We can identify the following four characteristics of companies in which Shibusawa was involved. First, naturally enough, an extremely large number of them were in industries that had introduced completely new Western know-how or technology that had hitherto not existed in Japan. Secondly, many of them, such as railroads, ports and coal mines, were industries that can be regarded as the infrastructure of a modern economy. Thirdly, when he took on a major function as a Director, he restricted himself to a single company in each industry. We can also see (what has hitherto passed almost unnoticed) that in cases where he did take up posts in more than one company in the same industry – railroads or coal mines, for example – he made it a principle that there should be no geographical overlap between them.

When we look at the composition of the management of companies in which Shibusawa was involved, we find that the number of managers involved in several Shibusawa-connected companies was not particularly large; in other words, he operated these enterprises in collaboration with a huge number of different managers. The small number of managers who did share multiple management posts with Shibusawa in the *zaibatsu* companies were restricted to key persons such as Takashi Masuda of Mitsui, and Heigorō Shōda of Mitsubishi. Others who stand out are Sōichirō Asano with 7 company directorships, and Kihachirō Ōkura with 6. Multiple directorships were also held by many directors of Shibusawa’s key bank, the Daiichi Bank, such as Kiminari Saionji and Jirō Odaka.

Concerning share ownership, the author also considered the extent of Shibusawa’s involvement in terms both of the ownership and the financing of companies. If we consider companies where he had a continuing presence, including a continuing position as Chairman, his share of the companies’ stock was quite high, at between 10% and 30%. In companies where he was simply a Director or Auditor, or held the post of Chairman for a brief period, his shareholding rarely exceeded a few percent; in many cases his name does not appear on the list of major
shareholders. Even in cases where he held the post of Chairman or Director, he owned only enough stock to enable him to exercise his management power authority without hindrance (Chapter 1).

As far as his involvement at the startup stage of a company, we can see that he almost always played an important role in authorizing the appointment of directors at the inaugural shareholders’ meeting. Shareholders held more authority in companies of the Meiji period than they do in enterprises after World War II in Japan, but from the inaugural shareholders’ meetings it was necessary to reconcile the interests of large shareholders, and those with a smaller number of shares. In this context the name of Eiichi Shibusawa as an investor-manager was extremely important in making sure that the intentions of the promoters of the company were put into practice (Chapter 2).

Shibusawa’s involvement with companies after their establishment continued in a variety of forms; at shareholders’ meetings in particular, he played a vital role in important decisions concerning the long-term direction of the company, such as its continuance or dissolution, or mergers with other firms. Before and after shareholders’ meetings he would attend a variety of gatherings both within the company and outside it, attempting to solve the problems that arose by reconciling opposing interests, or acting as arbitrator or intermediary. Since mergers caused changes in the composition of shareholdings, the selection of a new management team would be left to Shibusawa, who was regarded as able to make judgments taking into account both the interests of shareholders and the need for stable management. If conflict arose within a company, Shibusawa would be given the task of selecting the manager who would sort matters out (Chapter 3).

IV INSIGHTS GAINED FROM PART 2 ‘PERSONAL NETWORKS’

In Part 2 the author analyzed Shibusawa’s own entrepreneurial activities and top management techniques, which enabled him to act simultaneously as entrepreneur in a wide range of enterprises, as well as the personal networks of associated managers which supported these entrepreneurial activities.

One characteristic of Shibusawa’s entrepreneurial activity and top management methods was the great importance he attached to
information. What is notable about his information-gathering behavior is that it was based on personal interviews. He regarded these face-to-face contacts as important firstly because such interviews included the whole process of gathering, disseminating and acting on information. Secondly, they made possible the gathering, dissemination and sharing of information at the implicit level, where non-verbal information, nuances, and feelings came into play. Shibusawa gathered and exchanged information through meetings with a wide variety of people outside his companies, such as managers, investors and members of the government. His decision-making process involved the use of the information gathered in this way in a repeated series of internal discussions and meetings with selected members of his top management, which through a process of knowledge creation would arrive at concrete proposals for action (Chapter 4).

The author also discussed the other managers in firms where Shibusawa acted as Chairman or Director. For him to be able to engage simultaneously in a large number of undertakings, an essential requirement was a group of investor-executive who agreed with his approach, could act with him, and where necessary deputize for him. It would seem that the role of these investor-executive was particularly important in the ground-breaking days when a company was first established. Among the people who undertook these tasks were Sōichirō Asano, the Masuda brothers Takashi and Katsunori, Kyōhei Magoshi, and Kiminari Saionji and Yoshio Kusaka of the Daiichi Bank.

Once a company had been established, there was a need for supporting actors who could check and monitor its operations on a day-to-day basis. This task was undertaken by young managers selected and trained by Shibusawa, such as Chōzaburō Uemura, Heizaburō Ōkawa and Seiichi Umeura, or managers trained up in the Daiichi Bank, such as Tokizaburō Sudō and Hiroshi Toki. When Shibusawa was faced with consolidating a company that had over-extended itself, or rebuilding a company which was having problems because of mistakes by previous managers, he often undertook bold restructuring measures, including the merger of two or more companies. It was precisely because Shibusawa had around him managers on whom he could rely that it was possible for him to adopt measures which involved remolding the structure of the enterprises.
Non-zaibatsu firms had to find their own sources of finance and managerial talent. Shibusawa’s non-zaibatsu companies therefore obtained funding from wealthy members of the nobility and from merchants and landlords. Since these investors tended to be interested in short-term profits, Shibusawa needed to fill his top management posts with investor-managers, who could persuade them of the importance of securing long-term, stable profits. In the last decades of the 19th century the country had still produced few graduates, but Shibusawa had to find human resources capable of filling the posts of Executive Director or General Manager, who could be entrusted with day-to-day management. Shibusawa found these people through a variety of channels, and trained specialist managers by having them accumulate practical on-the-job experience. It is the existence of this talented and varied group of allied managers that enabled Shibusawa to engage in such a wide range of entrepreneurial activities (Chapter 5).

The scope of the analysis of managers who supported Shibusawa’s entrepreneurial activities was also widened to include middle-level management, with a discussion of the Ryūmonsha, an organization of managers and supervisory staff who believed in Shibusawa and his ideas (Chapter 6).

V INSIGHTS GAINED FROM PART 3 ‘FINANCIAL NETWORKS’

Of course, an analysis based only on these personal networks is far from adequate for an understanding of the whole range of Shibusawa’s entrepreneurial activity. The author therefore took another approach, looking at Shibusawa’s entrepreneurial activity in terms of investment and funding. He used the Shibazaki-ke Monjo [Documents of the Shibazaki Family], left by Shibusawa’s secretary, and the Shibusawa Dōzoku-kai Kaigiroku [Proceedings of Meetings of the Shibusawa Family], which make possible an analysis of the financial affairs of the Shibusawa family. These are historical materials containing financial data which had been almost entirely ignored by previous research, and which enabled the author to elucidate the flow of Shibusawa’s finances, in his activities as investor and manager.

The author first analyzed the household accounts of the Shibusawa family for the single year of 1891. This analysis revealed the following
facts. (1) The household accounts of the Shibusawa family were kept in written form, and reported regularly to a formal family meeting. (2) Budgetary control was exercised over the household accounts, and the budget guidelines were on the whole followed. (3) The account records were of two types: a ‘profit and loss ledger’, and a ‘balance of funds ledger.’ The expenses of the family were on the whole managed on the basis of the profit and loss account, while the balance of funds account was managed independently. (4) Something over 60% of Shibusawa’s own income came from dividends from shares; only about 10% was derived from fees for the directorships that he held in various companies. (5) The expenditure of the Shibusawa family on living and maintenance expenses came to something less than 20% of their total income. By regulation the balance was either deposited in a joint fund, or distributed as dividend to the branches of the family. (6) Investments in anonymous partnerships (Stille Gesellschaft) exceeded those in joint-stock companies, and there was also a considerable volume of loans to individuals, approaching the proportion devoted to investments. (7) It appears that their was a conscious effort to maintain the balance of the ‘balance of funds’ account steady within a single year. There was a rough balance between the purchase and the sale of shares, and between loans repaid by individuals and fresh loans to others.

Shibusawa’s asset management was structured so as to keep income and expenditure (mainly through the sale of his stockholdings) in balance. It was clear that profits, mainly from dividend income, were not directly connected to new investments, including addition subscription in respect of shares already in his possession. Shibusawa’s profit and loss account did of course contain many revenue sources, that were available as resources for the management of his assets. These included transferred profits, the family’s joint fund, and the portion of family profits transferred to Shibusawa himself. These resources were essential for Shibusawa as hedges against the risks he entailed with his investments in company startups and unlimited liability investments in anonymous partnerships, as well as the large loans that he actively furnished to individuals. He experienced any number of company failures, and in such cases drew on the family’s joint funds to discharge his financial responsibilities.

It is clear from the above analysis of the household accounts and
assets that backed up Shibusawa’s investment activity that his high-risk investments in new companies in the early stage of industrial development were only possible because of the high returns that the investments offered (Chapter 7).

The author next turned his attention to the 40 year period between 1891 and 1931 (the year of Shibusawa’s death) and analyzed the companies in which Shibusawa was involved. The companies in which he invested differed widely, from anonymous partnerships through to joint-stock companies, and the author’s analysis revealed a different image of Shibusawa from that generally held hitherto – as a promoter and nurturer of joint-stock companies. For companies with a strong public-utility character, requiring large amounts of capital, he used the joint-stock company structure, for high-risk high-return ventures he set up limited partnerships, and while small individual businesses were established as ordinary partnerships. By combining these with anonymous partnerships, he was able to limit the risks borne by investors. Thus, rather than considering the joint-stock company as the only appropriate business form, he chose the appropriate form of organization, depending on the scale and goals of the enterprise. In particular, when establishing ordinary partnerships, he combined them with anonymous partnerships – whose origins can be traced back to the Tokugawa period – making it easier for outside investors to participate, since they were not subjected to unlimited liability. This is an important point, which has hitherto received no attention whatsoever.

Concerning Shibusawa’s sale of shares, the author was able to confirm that, in order to raise funds for new investment, he cleverly combined dealings on the stock exchange with dealings on the outside spot market, and even in companies of which he was a director, would invest and then actively sell off shares when the conditions were somewhat advantageous. It is clear that, rather than strengthening his control over the companies that he had established, he gave priority to raising capital in order to establish new companies (Chapter 8).

As well as the sale of shares that he held, the author also discussed Shibusawa’s share purchases, his investment in a variety of businesses, and the wide range of movements of funds and of shares into and out of his possession. Shibusawa had a ‘fixed term loan facility’ of about ¥20,000 from the Daiichi Bank, but for borrowings greater than this
amount he put up collateral, and specified the purpose of the loan. The funds borrowed from the Daiichi Bank amounted to as much as ¥1,226,000, and of this ¥355,000 was for the purposes of the Asano Mine. As is clear from the discussion in Chapters 7 and 8, Shibusawa’s purchase of new shares was financed by the sale of shares on the market and elsewhere, and was clearly not, in principle, financed by bank loans using his shareholdings as collateral.

Funding for his operations was necessary not only when a new enterprise was being established, or when massive investments were needed to increase capitalization. There were of course occasions when it was not possible to go to existing shareholders for further investment, when funding was suddenly required for operating expenses, for example, or for additional investment to meet an unexpected contingency outside the agreed business plan. Since access to funding at low interest rates was difficult, Shibusawa sometimes lent the money directly in such cases, or provided funds and credit in a variety of ways, by lending his own shares as collateral for a loan from a financial institution, or by acting as joint guarantor of a loan.

On occasion Shibusawa provided such funds by taking out a personal loan, and the evidence clearly shows that he was not always able to recover the funds provided in this way. In fact, the opposite was the case; there were many instances where the funds provided were nonrecoverable. One could say that, by not only investing, but by providing businesses with funding and credit in a variety of forms, Shibusawa tried to create stability, with a long-term perspective, by establishing businesses in the unstable and uncertain conditions of the mid-Meiji period. The end result was that this was supported by the effective donation of a considerable quantity of his personal assets (Chapter 9).

As is well known, the base for Shibusawa’s economic activity was the Daiichi (National) Bank. The author considered the activities of this bank, and Shibusawa’s economic activities on the Korean peninsula, which were closely connected. It took an extremely long time for the Daiichi (National) Bank to garner any profits from its activities on the Korean peninsula. For the First National Bank, which had lost the right to issue banknotes, and was handling less and less public funds, the years around 1890 were a period when it was seeking a new substantial
source of revenue, with the success of its branches in Korea offering the only viable option. After the Bank’s transformation into an ordinary commercial bank, together with its parting of ways with the Mitsui zaibatsu, it was a make-or-break option that could not be allowed to fail. After the Sino-Japanese War, its Korean branches made large profits which had contributed greatly to the Bank’s fortunes, but with the establishment of the central bank (the Bank of Korea) these had ceased to be available. Nevertheless, the fact that the profits made by the Daiichi Bank as a colonial bank were of major significance in the period when its departure from Mitsui had left it with no zaibatsu affiliation, and it had not yet completed the process of establishing itself as a truly national retail bank through successive mergers. Materials concerning the Bank’s long- and short-term financial lending are sparse, and allow only fragmentary comment, but there were many cases where its loans were accompanied by personal credit guarantees or the provision of collateral by Shibusawa himself. It cannot really be said, therefore, that the Bank itself actively carried out this lending, shouldering the risk alone.

The Bank’s activities in Korea were attended by so many problems that it would not have been surprising if the venture had been abandoned half-finished. That this was not allowed to happen was due in great part to Shibusawa’s initiative. Shibusawa shared the perception of Korea held by most Japanese, which had strengthened since the Meiji Restoration. This saw Japan and Korea as sharing a common ancestry, with Japan already a modern state, further along the path of modernization than Korea. Shibusawa’s basic principle was that the only way forward was through self-reliance, rather than reliance on the government or the zaibatsu. His activities in Korea were developed with these objectives in mind, and the view that he paid little regard to Korean sovereignty itself is quite untenable (Chapter 10).

Finally, the author discussed the development of Shibusawa’s economic ideas. Shibusawa is often referred to as ‘a proponent of free competition’, but as international competition intensified from the middle of the Meiji period, the need arose to strengthen international competitiveness, he began to feel the need for policies for a certain level of general protection and support for domestic industry. This was a shift from his earlier position that favored free competition, to one that
approved of protectionism. His economic ideas shifted, so that he advocated strengthening the international competitiveness of individual enterprises through fiercer domestic competition, while implementing policies that supported and protected domestic industry from external competition (Supplementary Chapter).

VI CONCLUSION

From the above consideration it has become clear, firstly, that managers who were also large-scale investors played an important role and held considerable responsibility in the prewar joint-stock company system, and that Shibusawa was not only the creator of this system, but personally played a great part in its actual operation.

In Japan of the late 19th century, the joint-stock company structure was essential to mobilize the limited amounts of capital concentrated in a particular segment of society, to persuade people to invest and set up modern industry – of which they had no previous experience, and to give these operations a quasi-public character. It is also clear that a considerable amount of ingenuity and effort was necessary, through sponsors meetings and Annual General Meetings, to attract investors who were hoping for dividends and capital gains, and further to persuade them to remain as shareholders over the long term. The system could not have come into being without Shibusawa’s willingness to shoulder himself the maximum risk, at the same time showing himself willing to accept responsibility for management. Further, in a situation where changes in the very framework in which companies found themselves, through mergers and the like, were unavoidable, and where, consequently, conflicts of interest could not help but arise, the investor-manager, by investing himself, and himself undertaking responsibility for management, played an important role in the process of making major decisions. The truly outstanding feature of Shibusawa’s entrepreneurial activities lay in the fact that he was able to fill these roles in his involvement with a large number of companies, and thus construct an uniquely Japanese system.

The characteristics of the prewar Japanese joint-stock company model that Shibusawa built, and its safety-net mechanism, are summarized in Table 2.
Table 2  Shibusawa’s Prewar Joint-Stock Company System

<table>
<thead>
<tr>
<th>Features of system</th>
<th>Safety net</th>
<th>Chapter in Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment</td>
<td>Nurturing investor-managers and establishing their status</td>
<td>The importance of investor-managers in reconciling conflicts of interest between shareholders and managers</td>
</tr>
<tr>
<td>Operations</td>
<td>Importance of information</td>
<td>Quick detection of and response to operational problems</td>
</tr>
<tr>
<td>Training</td>
<td>Training managers outside the university-graduate system</td>
<td>Dissemination of the system and rapid response to problems by use of a wide range of human resources</td>
</tr>
<tr>
<td>Investment</td>
<td>Use of different forms of company organization + anonymous partnerships</td>
<td>Choice of organization appropriate to level of risk</td>
</tr>
<tr>
<td></td>
<td>System of circulation of funds by sale and purchase of shares</td>
<td>Demonstrating merits of joint-stock system to investors</td>
</tr>
<tr>
<td>Finance</td>
<td>Individual loans and credit guarantees</td>
<td>Provision of short-term funds, supplementing investment system safety valve</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sharing risk by providing personal credit guarantees for large-scale loans</td>
</tr>
<tr>
<td>Banking (Daiichi Bank)</td>
<td>Creating firm foundation through profits from colonial bank operations</td>
<td>Avoiding long- and short-term risks due to weakness of financial foundation</td>
</tr>
</tbody>
</table>

The prewar Japanese economic system that Shibusawa created incorporated a large number of diverse personal networks and fundraising mechanisms, and although it was essentially a competitive market system, it included a variety of safety nets, so that it could be operated in a relatively stable fashion. Shibusawa himself took a leading role, brought up a cadre of investor-managers able to function as
specialized managers to whom the operation of his various enterprises could be entrusted, or who could act as partners in his investments. He implemented a method of top management that placed great importance on information, and rapidly adapted his methods when business performance deteriorated, or inadequacies were revealed in his business plans. Further, in financing his enterprises, in addition to adopting the joint-stock company system, he used anonymous partnerships and established a mechanism that enabled him to operate simultaneously on a number of levels.

This system was entirely different from that adopted by the three great zaibatsu concerns, Mitsui, Mitsubishi and Sumitomo. In the Meiji period the common share-ownership pattern of the zaibatsu was a closed one, retaining ownership of shares within the family group, rather than offering them to the public. Their management too was mainly entrusted to graduate staff under clearly designated leadership. The model that Shibusawa created was entirely different; he financed his businesses by seeking funds from a wide variety of sources, and ran them in conjunction with a diverse group of management personnel.

He was aware, however, of the problems posed by having investor-managers involved in both investment and management, and once the company system and modern business were on a firm footing, he actively strove to raise awareness of business morality among those involved in his enterprises – both investors and managers. Here we see an entirely different imperative from the dynamism of the free economic activity shared by the investor-managers of the pioneering days of capitalism.

As we enter the latter part of the Meiji period, this problem becomes entwined with the issue of the imbalance between the ‘private’ and the ‘public’ with regard to the management of the economy. The issue was whether priority should be given to the dynamism and energy of the private sector, even if this meant sacrificing a certain degree of efficiency, or whether government control should be strengthened, to eliminate diseconomies and waste, and thus improve efficiency. Shibusawa’s solution to this dilemma was to demand leadership from the government, while at the same time encouraging the private sector to work for the creation of a truly ‘moral’ society. This is clearly a different position from that he took in the days when he was creating
businesses and getting them off the ground. What he demanded then was unrestricted energy and the creation of a variety of new institutional initiatives.

In Shibusawa’s later years he put a great deal of energy into ‘private diplomacy’, trying to reverse the deterioration in Japanese-American relations, and into practical efforts to improve labor relations, which had become increasingly conflict-ridden. One cannot fail to wonder at Shibusawa’s enduring energy as a ‘man of action’, but it is unfortunate that once his energies were directed toward conflict resolution and seeking compromises, they lost the dynamism which had been so evident when he was creating new systems.

It may be that Shibusawa as an investor-manager was a unique phenomenon. What is attractive about the investor-manager is his ability to demonstrate both speed and dynamism in business, but as is clear from the examples of Jutaro Matsumoto and Zenjiro Yasuda, problems are apt to arise in the area of governance. That Shibusawa was able to resolve this problem was because, on the one hand, by using a variety of investment structures, including anonymous partnerships, and by training up specialist managers, he created a range of measures to improve corporate governance, while on the other he had a strong awareness of the public role of the business man. Innumerable investor-managers were the beneficiaries of this stance, which enabled modern Japanese business to develop both rapidly and over a wide range of activities. Nevertheless, however many safety nets were put in place, the problem of the morals of the manager remained a serious one, and it is doubtful whether the status of the investor-manager could have been firmly established without Shibusawa’s contribution. Whatever our conclusion may be on this issue, it is worth emphasizing yet again just how effective was the business system that centered on the human and financial resources that Shibusawa brought into being.

REFERENCES


