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GENERAL TRADING COMPANIES — A COMPARATIVE AND HISTORICAL STUDY

Shin'ichi Yonekawa

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GENERAL TRADING COMPANIES: A COMPARATIVE AND HISTORICAL STUDY

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This paper is being circulated in a pre-publication form to elicit comments from readers and generate dialogue on the subject at this stage of the research.

INTRODUCTION

The Japanese general trading companies (sōgō-shōsha) in the postwar period have received much attention because they are considered to have given indirect aid to the smooth industrialization of the Japanese economy from the Meiji period onward. A good deal has already been published on this subject in the research on Japanese business history.[1] In addition, the world cannot overlook the role which the general trading companies played in the reconstruction of Japan's postwar economy as well as in the process of nurturing its international competitiveness. Currently not only Japanese scholars but also a number of foreign researchers are interested in this study area.

As a result of the accumulation of such research, the actual conditions pertaining to the general trading companies have been clarified considerably. Unfortunately, however, not much research has been done on them from the comparative viewpoint of world business history. Because of this lack of international perspective, the uniqueness of the Japanese general trading companies seems to have been overemphasized.

Scarcely anyone would disagree that historically the most typical of the general trading companies in Japan — defined as "enterprises engaged in the transaction of a multitude of commodities on a worldwide scale" — have been Mitsui and Mitsubishi. These two representative companies once formed part of the business combine called the zaibatsu, and most scholars would agree that they were able to develop as a result of having been part of the zaibatsu group.

If the zaibatsu were a business phenomenon peculiar to Japan, it might not be unnatural to take a step further and infer that the general trading company also is a type of enterprise characteristic of Japan. Although I am not certain whether such an inference has actually affected researchers, the general trading company has often been understood as being uniquely characteristic of Japan, sometimes much more than the zaibatsu.[2]

In fact, in the past, the development of Mitsui Trading Company was explained as a unique phenomenon characterized by the historical and particular features that accompanied the processes of Japanese industrialization. The general trading companies themselves were considered exceedingly historial and particular products. However, if this is the case, then the plan to nurture general trading companies in various countries at present would ultimately result in no more than something of no practical use. I do not say that an enterprise has no correlation to the business environment in which it germinated and grew. Nevertheless, the past approach seems to deserve questioning because it insists on the view that Japan's general trading companies are historically unique because they were brought about through an equally unique business environment.[3]

A comprehensive view of Japan's general trading companies shows that many of them are products of the post-World War II period. They generalized in trade in order to survive in the rapidly changing business environment, and they seemed to have had no choice but to generalize.[4]

The basis of business operations pursued by trading companies lies essentially in brokerage between a purchase price and a selling price — in other words, in profit alienation, to use a Marxian term. It should be said that participation in the trading business is relatively easy as long as profit on alienation continues to exist.[5] Profit on alienation differs from profit from production in that the capital used for brokerage operations is extremely fluid and short-termed. As far as this commission business is concerned, the capital should be retrievable in a short period of time with less risk. Therefore, the equivalent to technological innovation, which comprises the nucleus of entrepreneurial profits in production activities according to Schumpeter, cannot be found in enterprise activities specializing in distribution.

What guarantees the perpetuity of profit on alienation is a monopoly of the latest accurate information. If this monopoly disintegrates, profits would be reduced to reasonable commissions comprising the real cost plus something, or in a worse case it would even become difficult to obtain profits because of excessive competition.

As a result, in order for such wholesale enterprises as trading companies to develop and be maintained constantly, innovations (in a broader sense than that used by Schumpeter) become particularly necessary. If innovations in this sense were sought in the wholesale operation, they would be as follows: first, to expand the market and pursue operations in undeveloped lands; second, to handle new commodities; or third, to devise new methods, for example, to set up trilateral trade between familiar areas with the use of previously handled commodities or to skilfully allocate ships or utilize freight space in shuttle vessels.

Innovations of the first and second type are primarily salient to trading firms. The key to survival of trading companies which specialize in wholesaling is to include new commodities in their transactions and to advance commodity sales into new markets. Only on the premise of these activities can the operation of trading companies be maintained. Growth cannot take place without both activities. This, I think, is a sound theoretical supposition. The infiltration of capitalist economy and the formation of the world market were accomplished as a result of such business activities.

However, profit on alienation has a tendency to decrease once access to accurate transaction information becomes easier. Further efforts would be needed by trading companies in order to maintain profits. First, they would try to increase the transaction quantity of commodities that have already been handled so that the decreasing margin could be supplemented. It is widely known that commodities handled by trading companies are generally suitable for these kinds of bulk dealings. Second, trading companies might go beyond the mere commission business and extend themselves into becoming dealers who purchase goods when they are judged to be at a low price, hoard them, and sell later (speculative transaction). They venture into speculation. This is also not necessarily uncommon. However, it must be understood that there are limitations to these methods. The former will before long be obstructed by the size of the market itself, and the latter, as revealed by past experiences which will be noted later, is in fact a path to destruction.

The position of trading companies, like that of manufacturing enterprises, is threatened if they fail to renew themselves and grow constantly. In addition to the aforementioned methods, various methods to create barriers against newcomers to the business might be employed. Nevertheless, it would be very difficult even in these cases to maintain action which would restrict free competition.

A representative example of restrictive action is for trading companies to become sole agents, although in this case they have to suppress commission per unit of transaction at a low price. Another example, commonly seen, is for trading companies to control manufacturing enterprises through capital holding and try to monopolize the sales of their products. The managing agency system, which may be seen in various Asian countries, is the most explicit systematization of this policy, and at times the managing agency fees are calculated on the basis of sales quantity.[6] Thus, frequently throughout the world commercial capital is invested (i.e., by merchants) in industrial production in such an industry as spinning. The motivation is not only the pursuit of profits from a production process but also covertly to ensure commercial profits from the monopoly of the sales right.[7]

However, in spite of these safety measures, wholesale enterprises are always threatened not only by the new participation of the same kind of enterprises but also by the possible disposition of manufacturing enterprises. This is because manufacturing enterprises venture into direct sales of their products in order to secure the distribution margin as their own, in the same manner as wholesale enterprises venture into production with the objective of maintaining their own business foundation. Manufacturing enterprises thus try to pursue further rationalization of production to suit the market. In other words, they take a measure of forward linkage. Thus, wholesale enterprises are always pressured into lowering the commission by manufacturing enterprises that are armed with the policy of vertical integration. Wholesale enterprises cannot gain profits so long as there are those who always wish to enter this business and so long as they are unable to control manufacturing enterprises through financial power or other critical means such as information power.

Therefore, survival for trading companies in modern society is just as difficult as it is for manufacturing enterprises, if not more so. It requires extraordinary efforts just to maintain business. It is often emphasized that the way of trading companies in Japan is different from that in Europe. However, when the differences are described, it is necessary to take into consideration, on the premise of the above argument, the objective and subjective conditions regarding their formations or their sheer nonexistence.

The general trading companies developed in actuality because of the synchronic progression of various methods mentioned above, and I would like to suggest here that the first two measures were the most viable ones. Then, rather than asking why the general trading companies came to exist only in Japan, we would have to question if they truly do not exist in the West. If this is the case, the next question would be to find out why they do not exist. Putting the question in this way would require a Copernican change of view. In other words, it would be necessary to argue that perhaps it is the trading companies in the West that are unique rather than the ones in Japan.

I. A COMPARATIVE AND HISTORICAL FRAMEWORK

It is generally asserted that wholesale industry in the West has been characterized by the existence of specialized trading companies which emerged upon the development of a modern industrial society. This is said to show a stark contrast to the general trading companies that germinated in Japan. For example, some scholars maintain that there was specialization in the cotton business in nineteenth-century Lancashire, e.g., cotton merchants who imported raw cotton, cotton dealers for the domestic market, and cotton yarn distributors, all of whom were taken as completely different types of merchant or specialized trading houses. And it has been held that the situation was not changed upon entering the twentieth century.[8]

As shown below, such a contrast between Japan and the West is not strictly accurate, but presentation of such a sharp, but somewhat exaggerated, contrast may be helpful for illuminating the problems in this area. Thus, the characteristics of these specialized trading houses are the starting point of this argument.

First of all, almost without exception these specialized trading houses are not open joint-stock companies. In other words, whether they are private companies, partnerships, or even private firms, they are essentially family businesses. As was the case with most of the industrial enterprises, even in the early twentieth century, this aspect was not changed and remained the same as in the nineteenth century. What is important here is that there was no strong external impact which would lead to a change.[9] However, it was imperative for industrial enterprises to put in a large fixed investment to keep abreast of technological development if they wished to maintain competitiveness. Without doubt, this fact coupled with the surge of technological innovation at the beginning of the twentieth century made it necessary for family businesses to open their stocks as a means to procure capital.[10] Nevertheless, there was no intense external impact on the distribution enterprises, which were not directly affected by the constant surge of technological innovation. They maintained their conventional operation as there was basically no need for either the redemption of capital or the introduction of new technology.

This point can be restated as follows: It is usually asserted in the beginning of business history that the inevitability of transformation into joint-stock companies is due to the possibility of mobilizing idle capital, which corresponds to the advancement of an organic constitution of capital. However, unlike industrial enterprises, this point occupies only minimal weight in the commodity-handling business. It is characteristic of distribution enterprises, especially wholesale enterprises, that the vast majority of the capital employed is fluid capital. As a result, it is not accurate to presuppose that trading companies in a modern society follow the established line immediately and become open joint-stock companies, nor does the theoretical necessity for this hold much weight.[11]

Ordinarily, the base of operations of a trading house was limited to the business office in its place of origin; trading houses were single-office enterprises. The traders roved around various regions as commercial travellers. Overseas business activities were entrusted entirely to agents, who received a fair amount in the handling fees.[12]

In this case, overseas business depended on strangers. If one wished to pursue overseas operations himself, he would have to establish an overseas base with a new partner found at the actual locale. However, this rarely happened; it was easier for trading houses to appoint agents. However, because these agents had already been engaged in their own main business, they rarely took any active part in the development of business. On the other hand, if a new partnership was formed or if a pre-existing partnership was involved in establishing an overseas agency, the partner would endeavour to utilize the capital invested in the establishment of his base effectively. This would, of its own accord, lead to the path of becoming a general trading company.

It should be pointed out that, although the establishment of overseas agents is theoretically conceivable, in reality it does not occur frequently. Generally, partnerships in the other country are formed between the local merchants in the host country and one of the business partners or their relatives in the home country.[13] In this way, multiple partnerships which are mutually correlated are formed one after another on a world-wide basis. However, partnerships are not permanent enterprises, and, in order to operate plural partnerships with mutually close contacts, the enterpreneurs at the core would have to have extraordinary business capabilities. Without such capabilities, the interests of plural partnerships would become disparate; their co-operative relationships would be destroyed; and each partnership would begin to pursue business without any unity.

Thus even industrial enterprises were not able to rise simply above the framework of single-office enterprises up to the early twentieth century.[14] For specialized trading houses to pursue the functions of general trading companies, they must grow into plural-unit enterprises with overseas offices. However, this was an extremely difficult process for partnership businesses. Apart from this, it was common for those who succeeded as specialized merchants to enjoy life on interest they earned — as was usually the case with industrial enterprisers in Europe.[15] It should be added that there were not many who became successful. Many merchants went bankrupt as a result of dabbling in speculation.[16] Only a few entrepreneurs were able to overcome the difficulties and pave the way to becoming general trading companies.

II. CASE STUDIES OF BRITISH TRADING COMPANIES: ANTONY GIBBS AND GUTHRIE

This chapter will take up two cases among a handful of enterprises that developed into general trading companies in Europe: Antony Gibbs and Co., generally known as a merchant banker, and the Guthrie Corporation, which prospered throughout the former Commonwealth.

Antony Gibbs and Co. goes back to the early nineteenth century.[17] Antony Gibbs, the founder, was a dealer in textile goods produced in western England and exported to Spain. He was confronted with overseas business obstruction due to the disturbances of war in Europe, and to make a fresh start, established Antony Gibbs and Co. on Lombard Street in London in 1808. This company lasted until its reorganization into a private company with a limited responsibility in 1948 and was the nucleus of enterprises undertaken by the Gibbs family. Subsequently many family members joined the business, including the sixth-generation Antony, who became a director after World War II. From the beginning, the business carried out by Gibbs and Co. centred around its overseas offices. Because these overseas offices were the nucleus of multifarious dealings, the company was never confined to specialized trading. The overseas offices were operated through the formation of partnerships with local partners who were well versed in the local economic conditions, and they grasped every good business opportunity without fail.

The company grew rapidly domestically and abroad under the leadership of the second-generation H.H. Gibbs, who engaged in the management for more than half a century. He was also a director of the Bank of England during the Great Depression after the 1870s. The growth achieved during this period was based on trade with various South

American countries. The main commodities were such items as cocoa, bark, raw cotton, alpaca, and wool. In the 1860s, a particularly important commodity was guano. The company gained the favour of the Peruvian Government and thus acquired a monopoly right over the sale of guano, which attracted attention as a fertilizer at that time. When Peruvian guano was completely depleted, the company went further and gained the same right from the Chilean Government. At the same time, the company became the sole agent for the installation of railways in Chile and undertook the procurement of equipment and manpower from England. Similarly, it was engaged in importing industrial products as the sole agent for many manufacturing enterprises in England. Furthermore, there was a time when the company itself managed a weaving mill in Chile. In addition, it participated in such large-scale enterprises as the development of Chilean saltpetre and the manufacturing of sodium nitrate. It was this company that ortanized an international saltpetre pool at the beginning of the twentieth century. These diversified enterprises were carried out as a result of the company's strategies to cope with such situations as the lowering of commissions or the tendency for the commodities themselves to become depleted — for example, wool, bark, copper, tin, and silver.

Such an expansion of activities, however, was not enough to guarantee sufficient business for the London headquarters. The headquarters therefore undertook to advance into international financial business on the basis of the affluent overseas enterprises.[18] This occurred just when the city was growing to be the centre of international financing, and thus Gibbs and Co. also grasped this opportune moment. Soon after the establishment of its headquarters, the company would most likely have been involved in the discount business of import and export bills which naturally come together with trade, although this point cannot be clarified by the available data. The first involvement in the indirect export of capital occurred during the Great Depression. The demand for capital was very great, particularly because of overseas railway construction, and so Gibbs and Co. declared itself a securities issuing house in 1887 and began actively issuing foreign loans, primarily to Central and South American countries. At the same time, it continued its endeavours in the acceptance and discount business of bills.

After World War I, the competitiveness of Chilean saltpetre abated because of the invention of the air nitrogen fixation method by Hubert Bosch. However, various business activities in Australia, where the operation base had been immobile, began to exhibit marked growth, which will be described later.

There was another regional expansion, and the company advanced into North America for the first time in 1912, establishing an office in New York. The activities in New York were limited to trade and the agency business, and the company did not venture into financing.[19] In the beginning, saltpetre importing occupied the key position in commodities transactions in the United States. When saltpetre prices fell after World War I, the company handled the import and export of various commodities on an almost world-wide scale. Automobiles became a major export item in the 1930s. The company pursued its agency business with special vigour. In 1931 the insurance section became independent from the company with the establishment of the Antony Gibbs (Insurance) Corporation. In addition, several separate companies relating to other financial services were founded as non-public joint-stock companies (private companies) prior to the reorganization of the parent company in 1948.[20]

It was felt necessary for Gibbs and Co. to change even further in order to survive in the new economic conditions which developed after World War II. The company advanced into Canada to explore a new market but met disastrous defeat because of its limited reputation there. The trilateral trade between South American countries also ended without achieving the results expected. However, the company was nominated as secretary of the London Commodity Exchange immediately after the war and carried out dealings in multifarious primary products on the basis of its international reputation and credibility. At the same time, using intricate strategies the company founded affiliated companies in succession particularly in South America. It was by this reorganization into private companies that the company coped with the economic environment.

The above is a brief account of the development of Gibbs and Co. The activities in South America, the United States, and Australia justify calling it a general trading company. Centring around the axis of a trading business, the company continued to extend its control over all possible related fields such as shipping, insurance, mining, and manufacturing enterprises. The business operations of Gibbs and Co. that developed around the trading company can be compared to those of the Japanese zaibatsu business combine.

Having outlined this trading company, let us clarify the behaviour of the enterprise from the aspect of trade business strategies centring around its overseas offices. This analysis will be based on Australia.[21]

It was under the leadership of the Liverpool office (a separate partnership that dealt mainly in the ship assignment business) that Gibbs and Co. established its first business office in Melbourne, Australia. The initial aim was to carry out the agency work of ship assignments between England and Australia from the Australian side. Having the Melbourne office as a base, the company further expanded its agency work to cover ship assignments between Australia and various Asian countries. Moreover, the company itself either built ships or chartered ships to transport cargo between various Asian ports. During the latter half of the nineteenth century the number of immigrants to Australia increased rapidly. Because there was a brisk demand in Australia for every industrial product "from a nail to an anchor" from the home country, the trading business was exclusively geared to importing.

When the import boom subsided with the onset of the Great Depression, it was proposed to engage in exporting wool; the London headquarters initially reacted negatively to the proposal but eventually gave its approval, and wool became a leading commodity. Branch offices were set up all over Australia, and the company became involved as a managing agency for many of the sheep-raising companies during the recession. About this time the company itself ventured into flour milling for flour export. Another important commodity emerged between the end of the nineteenth century and the early twentieth century — ores. Australian mining companies for the exploitation of sulphur, tin, and copper were founded in succession, and some of them were managed by Gibbs and Co. About the same time, Gibbs and Co. was being sued because of the bankruptcy of a public offering firm called Lake George Mines Company, whose capital was procured in London by Gibbs and Co., acting as a managing underwriter.

After World War I, manufacturing enterprises in England furthered their efforts toward sales integration in order to economize expenses entailed in distribution. Around the same time, Australian industry germinated and enterprises there were urged to renovate themselves. From the Australian side, attention was directed toward the development of new commodities to be distributed in quantity. In this case, managing agencies had an advantage in market information and sales organization. From the British side, in order to bring about consistent inventory and services, contracts for exclusive sales became prevalent. The principal new Australian commodity developed during the war was lumber. Gibbs and Co. obtained lumbering rights directly from the Australian Government and managed lumber mills at various places. Lumber collection operations extended as far as New Caledonia and Borneo, and the lumber was exported to Europe. A representative example of an exclusive sales agreement was that by which Gibbs and Co. made its Australian office the sales agent for the products of Lysaghts, the largest galvanized iron sheet manufacturer in England.

It can be seen that Gibbs and Co. exhibits characteristics similar to those of Japanese general trading companies: (1) Each of the overseas bases has its own key commodity; and, as soon as the demand for one commodity declines, a new one is actively developed. (2) To solidify transactions, Gibbs and Co. often lends capital to manufacturing enterprises or establishes its own factories. (3) Additional branch offices and affiliated companies are successively established in the same region, centred around the core business offices. (4) When the existing planning goes contrary to operations, the company makes a rapid withdrawal from the field. (5) Although it happens rarely, the company has sometimes been badly hit by the failure of speculations undertaken by its overseas offices.

Professor Keiichirō Nakagawa once stated that the agglomeration of Japanese trading companies was triggered by their advancement into the financing and insurance business. But Professor Hidemasa Morikawa gave a detailed refutation to that theory.[22] In the case of Gibbs and Co., the company was moving toward agglomeration from the very early stages. Also, the various aforementioned subsidiary business activities including finance supported the growth of the enterprise. Therefore, Professor Nakagawa's theory might be applicable to general trading companies in England, as can be seen in the case of Gibbs and Co. as well as the case cited below. Although Gibbs and Co. has been known in Japan as a merchant banker, it actually started with trading and then added financing. With these two businesses as pillars, the company was formed into a multiple business combine. Because the management has been controlled by the members of the Gibbs family for several generations, the company can indisputably be called a zaibatsu. Neither the agency business of all kinds nor the advancement into manufacturing damaged the actual conditions as a general trading company, as these operations often were concomitant to such a business.

Gibbs and Co. is not exceptional as a general trading company, and several other such companies can be pointed out in England. For instance, the Guthrie Corporation was a British colonial enterprise whose control right was taken over in 1981 by the Government of Malaysia, which had obtained a majority of the stock.[23]

The birth of the Guthrie Corporation also was in the period of the Industrial Revolution. Alexander Guthrie, who was born in a rural village in Scotland, was first engaged in trade at Cape Town, which at that time flourished as a port of call for the Indian line. He moved to Singapore as soon as it came to be governed by Britain in 1819, and carried out extensive colonial trade. His business centred around importing wool products, cotton yarn, metal products made in Sheffield, clocks, and alcoholic beverages as well as exporting pepper, tin, and gold dust.

Subsequently, Guthrie discontinued his partnership of that time and simultaneously obtained the management right in Singapore, and in 1824 with another partner started the Guthrie Corporation. With Singapore as his base, Guthrie became a distributor for all possible commodities as he had grasped every business opportunity without fail. Nevertheless, the primary business bases were entirely limited to London and Singapore and their adjoining areas. Thus, as described below, the agglomeration process of Guthrie was in progress until after World War II. In addition to these overseas dealings, Guthrie ventured into such agency businesses as insurance and shipping as early as the 1830s. By the time of the Great Depression, Guthrie had concluded business contracts with several companies in both fields.

As soon as he observed signs indicating a limit to trade quantity as the Great Depression worsened, Guthrie introduced a new strategy. He began to lend surplus capital to various plantations, keeping their products as mortgage. Coffee received much attention as a key commodity at that time, and capital was lent to coffee estated in the Malaysian Peninsula as well as to tin mines. Through these loans, the Guthrie Corporation was able to amintain a distribution monopoly over these products. Besides tin and coffee, food products and machinery were also added to Guthrie's transacted commodities.

During the 1890s, when the coffee peak had passed Guthrie got involved in growing rubber, which soared into a major world commodity. It is important to note that at this time Guthrie went further than merely giving out loans. In preparation for the new enterprise, the Guthrie Corporation was reorganized into a private company in 1903. When the rubber-growing company was founded, the Guthrie Corporation itself became a managing underwriter and took part in the operation of the public offering of stocks. Moreover, Guthrie subrogated its management and became its managing agency and acquired control of the management of a number of rubber-growing and rubber-production companies.[24] In the period between the two wars, the managing agency business was extended to the field of coconut oil.

This incessant change of key commodities dealt in was a characteristic of the Guthrie Corporation as a general merchant. However, as mentioned already, the fact that the corporation dealt primarily with British clients raises some question about whether its business activities could be considered truly global. Therefore, the completion of the agglomeration process did not come until after World War II. Actually, it was in the midst of rapid postwar technological innovation that the Guthrie Corporation responded resolutely to a request to break completely from its antiquated constitution. A good indication of its motivation toward sales integration was shown by the introduction of a standardized process of rubber production and the sales of crude rubber made by this system under the brand name Dynat. Moreover, the fact that Guthrie came to control a rubber-goods research centre as its subsidiary shows its interest in end demand.

The strategies toward global business activities were definitely reinforced by the storm of nationalism epitomized by the independence of Malaya in 1957, as well as by the diffusion of business activities which derived from a policy of taking country risk onto consideration. In keeping with this, the company tried to integrate its business activities; this will not be discussed here. About the same time, the insurance and shipping businesses were made independent, forming separate companies. Furthermore, the managing agency business became an independent company.

Subsequently, Guthrie amalgamated manufacturing enterprises successively and made them subsidiaries to the company. This is similar to the path taken by the Mitsui and Mitsubishi trading companies. The fact that these germinated from the parent body of the trading companies is salient. The trading company and the managing agency were reunited in 1965 and reorganized into an open joint-stock company called Guthrie Corporation, as mentioned above. At that time, over ten enterprises which had entrusted their management to the managing agency stopped subrogating their management and were made completely subsidiary to the corporation as affiliated companies. Thus, Guthrie became free of the managing agency business, which is extremely reminiscent of enterprise management in the colonies. By this time, the corporation's new business activities clearly took on the hue of a general trading company through advancement into various industrial fields by affiliating manufacturing enterprises mainly for the processing of products with which they deal throughout the world.

Ultimately, the Malaysian Government came to control the majority of the capital of the corporation, which is now required to serve the national interest of Malaysia. However, the company's accumulated know-how pertaining to the general trading business will most likely survive.

It can be understood from these two cases alone that a theory which states that the general trading company does not exist in the West is not necessarily correct. At least, such a premise must be discarded prior to undertaking studies on the position of the Japanese general trading companies in relation to world history.[25]

I have argued that it is extremely difficult to form a general trading company under partnership because of their restrictions on entrepreneurial resources, even if problems pertaining to organizational theories are disregarded. Nevertheless, it should be clarified that this argument was developed on the premise of unity between proprietorship and management. The cardinal factor is that under partnership, it is difficult, particularly in the West, to employ competent salaried managers. Nevertheless, it is not as if there are no examples. Crowleys, which flourished from the eighteenth to the nineteenth century, was most likely the world's largest ironworks, and it was able to survive for more than a century because there were competent managers despite the owner's inattention to the enterprise due to his involvement in politics.[26]

When the competence of salaried managers was recognized, it was not unusual for them to be promoted to partners with some holdings.[27] In the case of Crowleys, the management was initially entrusted to a capable manager with an annual salary of £400. Upon his death, it is said that the closure of the enterprise was seriously considered, but it was taken over by the succeeding manager. In 1782, the salaried manager at that time joined the partnership with four-elevenths holdings. This was the secret to the longevity of Crowleys, which was exceptional in Europe.[28] However, in most cases, it is hard to understand how truly capable managers were kept satisfied with holdings of less than 10 per cent. After the accumulation of enough capital, capable ones would naturally become independent and manage their own enterprises.[29]

Another difficult problem, discussed by Hartmann, is that in Europe the traditional view that management is trustworthy only when it comes together with ownership is still dominant.[30] This view was accepted as an absolute truth prior to World War II. Consequently, the premise of the union between ownership and management was applicable in many fields in Europe and America at that time. Also, as long as the value system of esteeming those who lived off their interests dominated, particularly in Europe, it was common for successful entrepreneurs in the trading industry (just like tycoons in industrial enterprises) to move upward, becoming men of wealth and rentiers. If one was not satisfied with this situation and wanted to develop the enterprise further (in itself the path leading towards the formation of a general trading company), one needed to employ salaried managers. This, however, was extremely difficult as was the making of a general trading company.

There is another aspect of the difficulty in employing capable managers. Either in the West or in the East successful management of trading companies is ultimately reliant on men of ability. Managers in the West were trained through apprenticeship, acquiring trade know-how through a period of practical experience. Apprenticeship was thus alive not only in industrial management but also in business management even in the nineteenth-century West. As had been the same with medieval apprenticeship, apprentices started off on the premise that they become independent after the completion of training for a certain period. Many of the apprentices did come from families with wealth, which made it possible for them to become independent. Naturally, enterprisers were not able to constrain them to the enterprise after the acquisition of training.

Consequently, in order to hire those who completed training as managers, an employer had to find them trustworthy, and he had to be able to pay them sufficient remuneration. The employer was required to invest not a little amount for a full-time manager, and it was absolutely imperative to find a man to be trusted. There was a risk that the entire wealth belonging to the enterpriser's family could be totally lost under an irresponsible partnership whereby the partner dabbles in speculation and fails. Apart from a failure in well-intended speculation, there were not a few fraudulent practices. These were the added problems which increased the aforementioned difficulty that trading companies had to overcome in order to become conglomerated.

In addition, there were problems pertaining to difficulty in decision-making which derived from an increased number of partners whether a hired manager or a family member was made a partner and problems pertaining to the awkwardness in mutual adjustment of decision-making when multiple partnerships were created abroad. When these are taken into consideration, there were far too many hurdles for trading companies under partnership to overcome to become general trading companies.

Possibly, it may be better to put this differently as follows: The employment of salaried managers coupled with the reorganization to a joint-stock company create a solid foundation for an enterprise as a perpetuating existence, and once this is fulfilled a trading company will steadily come to follow the aforementioned path toward conglomeration as a natural development. The problems pertaining to the formation of the general trading company can be considered essentially to be related to the organizational form of the enterprise and the separation of management from ownership. A logical induction is that a trading company, as long as it continues to develop, will become conglomerated. Thus, if there was a case in which this did not happen, the reason should be searched for in the method of business management itself.

III. THE FORMATION OF GENERAL TRADING COMPANIES IN JAPAN

Is it correct to say that the same conditions as those in the West existed in Japan, and moreover that the general trading company fully blossomed in Japan?

In England there were specialized merchants (companies) who dealt with various European countries, which were not English speaking even prior to the birth of the modern society. However, despite the opening of several Japanese ports in the mid-nineteenth century, traditional domestic merchants in Japan could not wedge themselves into the commodity transactions with foreign countries because foreign trade comprised a sanctuary enjoyed solely by foreign merchants residing in Japan. This was not only due to a linguistic barrier but also due to a historical factor — the isolation from the outer world which extended over two hundred years. The isolation made foreign trade something very exclusive for a limited number of elites. Foreign literature of the time often stated that Japanese merchants were dishonest and untrustworthy, but this view must be due to the great differences in the business practices. The unequal treaties concluded with various Western countries also gave more power to the rampancy of Western merchants. Japanese merchants had no means to counteract foreign merchants who lived in the extraterritorial settlement and had deep knowledge about the current Western economy.[31] Even well after the Meiji Restoration in 1868, the condition was such that ordinary Japanese merchants were unable to deal directly with these foreign merchants. Japanese sales merchants came between the two parties. Sales merchants often had no choice but to oblige the sometimes quite unreasonable wishes of foreign merchants. Therefore, the Meiji leaders regarded establishing a way for direct trade and shattering the

Western merchant's monopoly of market information to be a serious matter of interest.

It was in this kind of business environment that the Mitsui Trading Company came to exist. A perusal of its history, particularly its burgeoning period, is indispensable for an understanding of its brilliant achievements. Concurrently with the opening of Yokohama Port, Mitsui, a traditional big merchant, opened a Yokohama office and advanced into overseas trading on the recommendation of the Tokugawa Government. Its Edo office also ventured into raw silk export. In addition, Mitsui's affiliated stores Mitsukoshi (especially its Yokohama branch) at one time were heavily involved in the sales of silkworm eggs, paper, and tea.

Upon entering the Meiji period, leading merchants in Tokyo established the Tokyo Bōeki Shōsha [Tokyo Trading Company] under the forceful guidance of the Government. The prospectus for its founding states: "Now that foreign trade is pursued briskly, the outcome of foreign merchants has become increasingly egotistic and they tactfully insist on various difficult propositions. . . ."[32] The prospectus goes on to assert that merchants should unite their capital and establish a trading company in order to counteract foreign trading houses.

Mitsui subsequently opened domestic-products offices at various places in 1874 which were aimed at the pursuit of cash payment for land taxes as well as exchange transactions and the sales and transportation of rice. Of these offices, the Export Department was established at the Tokyo Domestic Products Office in March 1876 and began to export rice. However, because the sales were very disadvantageous to the selling party and because there was insufficient overseas business knowledge and information regarding direct export, these operations were far from profitable.

Compared to these efforts, the Senshū Trading Company, one of the parent bodies of the Mitsui Trading Company, was far more successful. The Senshū Trading Company originated with Okada and Co. which was established at the beginning of 1874. An American trading firm called Edwin Fisher and Co. joined Okada and Co.[33] Owing to the participation of this trading firm, rice was exported to London. Although it seemed as if the business would expand smoothly, the operation came to a standstill due to the sudden death of Heizō Okada, who was the key figure. At the time Kaoru Inoue, president of Okada and Co., reorganized it into the Senshū Trading Company. The rules of this company stated: "This trading company inaugurates a great business with world-wide transactions and devotes itself to the distribution of products made in the Empire to foreign countries." The content of business which had been pursued by Okada and Co. was hardly changed, and Fisher and Co. also invested in this company as it had done before. Moreover, around this time, Takashi Masuda who had worked for Walsh Hall and Co. as a clerk joined the company. The business ran smoothly. Trade with England increased after the establishment of a London branch office by Fisher and Co. in 1875, because the company repaid the capital invested by Fisher and Co., a historic joint-capital trading company between these two countries thus was dissolved. However, Fisher and Co. remained a good company to deal with. In particular, R.W. Arwin, who was another partner of the London branch office, and Masuda became very good friends. Later upon the establishment of the Mitsui Trading Company, Arwin was appointed adviser and contributed greatly to the ground work needed for Mitsui's London office.

Although the future of the Senshū Trading Company had appeared promising due to its success in obtaining the co-operation of a foreign trading firm, difficulties arose in 1875 because of Inoue's intention to return to politics. Ultimately, in April of the following year, Inoue conveyed a request to Masuda to take over the Domestic Products Office from Mitsui's Rizaemon Minomura and to inaugurate a trading company whose primary aim was overseas transactions. Thus Mitsui Trading Company was established.

Mitsui's preceding history has been given in detail because it is considered to contain the key to the success of Mitsui Trading. I would like to point out that there was some experience with foreign transactions as well as an accumulation of know-how already in the time of Mitsui's predecessor and that its success in trade rested particularly on a tie-up with a foreign trading firm.[34] The situation was very much like industrial enterprises where the so-called technology transfer was carried out by engineers who had been employed from foreign countries. Between 1876 and 1890 Mitsui Trading Company was a "private corporation" and during this period many overseas offices were established. The process toward conglomeration which derived from the most efficient utilization of these overseas bases grew rapidly during the next period of "unlimited partnership." The conglomeration process, however, should not be attributed to the change in business strategies. As shown above, from the outset the company's premise was to be a general trading company.

It is significant that despite this intention it took time even for Mitsui to actualize its objective. There were many setbacks such as the immediate closure of Paris, Milan, and New York offices which had ventured out on the basis of raw silk as their key commodity. This can easily be understood when the linguistic barrier alone is taken into consideration. Only the London branch office continued its operation. This continuation was possible as a result of the human relationship nurtured during the period of its antecedent, the Senshū Trading Company, which shows the significance of trustworthy human relationships in trade business dealings. The same can be said about the financing business. Another feature required of managers in the trading business is an understanding of the economic climate in the country with which they are dealing; they are expected to acquire it through business activities. The human factor is absolutely important in the trading business.

Prior to a discussion on the managerial human resources, we should primarily study the organizational forms of the enterprise particularly in its earlier stage. There are two major questions that must be solved in the course of the general trading company's development — one is the organizational form that the enterprise should take and the other is about the separation of management from ownership.

At the time of the inauguration of the Mitsui Trading Company, it was made a "private corporation" without any capital, and the business was started with a loan of 50,000 yen. Although this fact is quite well known, the nature of "private corporation" is not necessarily clear. What is evident is the fact that it was not a company — in other words, not a private enterprise — but it was started without capital. This was a reflection of Takashi Masuda's opinion that Mitsui Trading did not need any capital because of its engagement in the commission business. He considered that a loan of 50,000 yen from the Bank of Mitsui would suffice for working funds. At the same time, viewed from Mitsui's side there was a reason that "the capital is not handed to the said company in order for both parties to avoid any losses in the future." Consequently, Mitsui Trading Company at its outset was not in a financially comfortable state. Nevertheless, the company's fundamental constitution was formed during this period when it was without capital, and because the company held fast to being non-capital, it could pursue venturesome business strategies without being restricted by the Mitsui family.[35] Mitsui Trading's liberal and open-minded tradition was formulated during this period.

One of the cardinal contrasts between enterprise management in Japan and that in the West is the fact that in Japan the separation of owners from managers was traditionally established since before the modern period. As this is a commonly accepted theory, this paper will not delve into this topic further.

Traditionally Japanese business was operated by managers or controllers chosen from long-term servants who were competent in managerial capabilities. On the other hand, because there was a tradition in the West that proprietors alone had the qualification to manage, the separation of ownership from management did not take place for a long time. It became possible only after the public offering of stocks became prevalent. When stocks were opened to the public, stockholders were diffused and ownership came to have only a relative meaning. This process, in one sense, would be extremely natural.

Absolute loyalty on the part of managers to owners was indispensable when owners entrusted the actual power of management to someone who did not own the enterprise. However, loyalty is something which could not be easily guaranteed in any country. In the West, therefore, managers were given some part of the profit even though they were not investors so that their loyalty to owners could be enhanced.

Why was it possible for Mitsui (which had as many as one thousand employees already at the end of the Tokugawa period) to have separated its management from ownership? The existing theory is persuasive. First of all, a family business ought to be continued from its ancestor to descendants. In other words, there is a tradition that it is a growing concern. There is no room for loyalty from employees to the employer to take root in such a business as the one based on partnerships whereby most of the contracts are not renewed after five years, and it is natural that partners come to opt for independence themselves. Second, in addition to the above, such systems as the branch family and the establishment of the same line of business for competent senior employees played a role in reinforcing the tradition. Employees' loyalty was maintained because they had the prospect of being promoted and being set up in the same line of business or even further being granted the honour of treatment as a branch family, should they work hard and serve the employer. To put it differently, dedication to the owner family brought about "pseudo-family consciousness" in the entire family business.[36]

It has been asserted that merchant families in the Tokugawa period generally followed this ideology. However, if such a unique mechanism that guaranteed the perpetuity of family businesses functioned easily in every merchant family, there would have been many Mitsuis. The fact that only a very small number of families were able to achieve the aim seems to suggest that, despite its remarkable ingenuity, the attainment of the long-term prosperity of family business was a thorny path full of difficulties. At any rate, getting back to the Meiji period, the relation of employees of Mitsui Trading at that time to salaried managers should be discussed here.

In order to be successful in direct trade, it was indispensable to train personnel who were capable of handling it. In the early Meiji period, like scientific technology, trade technology was beyond the reach of traditional merchants. Those like Masuda who were fortunate enough to acquire the technology through so-called apprenticeship were exceptions. For this reason many trading companies which emerged before Mitsui Trading disappeared without achieving their ambitions. Even in the case of Mitsui, there was no one proficient in foreign correspondence at its outset, and Arwin took care of it completely.[37]

The promotion of trade through direct transactions was a matter of major interest in Japan at that time not only at the level of enterprises but also in government circles. The Commercial Training School which had been established in 1875 with the co-operation of Arinori Mori and Eiichi Shibusawa was placed under the jurisdiction of Tokyo Prefecture in the following year. Incidentally, it is interesting to find Takashi Masuda's name in 1879 as a member of the school committee to establish school rules.[38] Masuda happened to be a brother-in-law of Jirō Yano, director of the training school. The educational objective of the Tokyo Commercial School, which succeeded this training school, was to master new knowledge pertaining to trade practices and trade finances. Even after the change of this training school into the government-run Tokyo Commercial School in 1884, Masuda maintained a close tie with the school as a member of the School Affairs Consultation Committee.[39] At that time, Masuda, who was the president of the Mitsui Trading Company, was paying keen attention to the graduates of the training school.

It was stated above that Mitsui Trading's employees already accumulated know-how regarding the trading business during the period of "private corporation." Starting from 1881 when the school was still the Commercial Training School, graduates and those who left the school without completion began to enter Mitsui Trading regularly. Incidentally, when Takeo Yamabe, director of Osaka Spinning, visited London for the second time in 1887, the chief of Mitsui's London office was Senjirō Watanabe who left the training school in 1877 and became the first person from the school to enter Mitsui Trading. In 1881 when Mitsui was about to accept the graduates of the training school regularly, the number of employees increased to 110 from 16 at the time of its establishment.[40] Nevertheless, before 1881, there was not a single school graduate in a position of responsibility at the five overseas offices. Subsequently, in 1893, after the reorganization of the company into an unlimited partnership, about 75 per cent of overseas offices were staffed by school graduates. At the newly established Bombay office, Yūnosuke Yasukawa, a graduate of Osaka Commercial School who later became president, was the one and only Mitsui man. Mitsui actualized the agglomeration process to become a general trading company approximately during this period.[41]

At the beginning of the 20th century, as many as 55 employees were graduates of higher commercial schools, of whom more than 19 were working at such overseas branch offices as the ones in London, Shanghai, Hong Kong, Singapore, San Francisco, Taipei, and Tienchin. From this time onward, ten to twenty graduates entered Mitsui Trading every year, and thus the school was truly a training school for Mitsui employees.[42] Subsequently, from the latter part of the 1890s when Mitsui Trading was definitely becoming a general trading company, it began to employ graduates of higher technical schools, and after the end of the Russo-Japanese War (1904-1905) imperial university graduates were also employed.

It is interesting to compare cotton trading companies and general trading companies, in order to find out how indispensable these school graduates were for a trading company to become agglomerated. Let us take the Iwai Trading Company as an example which was one of the few trading companies which already revealed the germination to become agglomerated prior to World War I. This company showed a rapid growth from about 1902, and its trading section consisted of those who graduated from schools.[43] It is recorded that the company hired twenty odd new school graduates as employees around this time, although there must have been some who resigned within several years because the number of school graduates at the start of World War I was recorded at 27.[44]

On the other hand, the Nihon Cotton Trading Company which started off as a cotton import company was even more passive in hiring school graduates. It is recorded that Matazō Kita, who graduated from Osaka Commercial School, entered this company in 1891, and later became president, was indignant at that time to see that business administration by the company's management remained quite conservative.[45] He became a manager in 1903 who could then exert more influence, and it appeared as if it had been possible to attain his ideal to make the company "a great trading company which predominates over the Kansai region [the area centring around Osaka]."[46] The fact that a small number of his juniors who graduated from the same school were constantly hired during the decade after the year following his inauguration indicated an accumulation of managerial capability. However, a setback occurred in 1908 because of a failure in speculation made by the Shanghai office, and it was not until 1913 that the company could venture into cotton export. Therefore, it is difficult to say that the company actually took a step toward agglomeration before World War I. This ultimately implies that it was not easy for the company to break from the antiquated constitution which was initiated by the cotton merchants at the time of its founding.

The management of Chū Itoh and Co., which also emanated from a cotton yarn and textile merchant, was more conservative. It is said that the second generation, Chūbei Itoh, was not able to fulfil his earnest desire to enter Tokyo Higher Commercial School due to a request to be committed to the family business. This company's tradition did not go beyond the prevailing view among merchants at the time, namely, "how can a school graduate do commercial business and serve as an apprentice?"[47] Although commercial school (middle-school level) graduates were seen among the staff after 1893, Tomizō Inoue was the first graduate of a higher commercial school to enter this company (in 1908). Thus, the number of school graduate employees at the outset of World War I was insignificant.[48] Although this company rapidly expanded its business during the war, it had to cut off its newly started trading division due to the grave damage inflicted by the postwar depression.

In the case of the Furukawa Unlimited Partnership (with 101 school graduate employees at the time), it established the Furukawa Trading Company during the war and ventured into trading. The company went bankrupt due to a failure in soy bean speculation because an internal audit system which would have detected the soy bean speculation by the inexperienced Dairen office was not yet established.[49]

When the distribution of school graduates in business in Japan immediately before World War I is examined, one of the most distinctive characteristics is the fact that many school graduates were found in extremely singular fields such as trading companies and spinning companies, which would be inconceivable in various advanced countries.[50] The distribution according to enterprises reveals that the Mitsui Trading Company with 731 school graduates had the largest number in Japan. Apart from Mitsui, among the top 100 companies which had at least twenty school graduates were Ōkura and the aforementioned Iwai. Takada and Co. was ranked between the 10th and 20th with 146 school graduate employees, and Suzuki and Co. ranked between the 30th and 40th with 72.[51]

Of these, Takada and Co. and Suzuki and Co. went bankrupt in 1925 and 1927, respectively.[52] The 1920s was the so-called period of suffering for trading companies.[53] This was due to World War I which induced most favourable opportunities for trading companies to venture into speculation. In such a situation speculation was considered normal rather than the proper role of trading companies as commission merchants. Then they were hit by the postwar recession. I have already pointed out that because there is a tendency for trading companies' profits obtained as a result of being commission merchants to diminish constantly because of competition, there exists a perpetual incitement to speculate (or to be involved in speculative buying and selling). Amidst the recession from 1910 onwards when the results of the trading companies continued to decline, the outbreak of World War I must have appeared as a golden opportunity for businessmen who had been troubled by the stagnant business achievements. This was a pitfall.

It is generally stated that Suzuki and Co. began to become agglomerated around 1910. However, one can find marked differences with regard to the overseas business environment and managerial resources of this company compared to those of Mitsui in the 1890s when the latter advanced into agglomeration. First of all, as far as the economic environment was concerned, the international economy after over ten years became far more complex. In addition, the forerunning enterprises centring around Mitsui were beginning to establish their dominance due to their head start.

It should be emphasized here that unlike industrial enterprises, the profit of latecomers does not exist for distribution enterprises. The only way for late-starting enterprises is to encroach upon the distribution networks established by the forerunners or try to become established in the fields which have not yet been touched. The business which led Suzuki and Co. to grow to the extent of realizing vast profits was either extremely speculative sales activities centring around primary products or through monopoly sales rights. However, this trading company hardly possessed its own sales bases overseas prior to World War I. The fact that its London office was closed down in 1902 implies that the process toward conglomeration on the basis of this office resulted in failure. Henceforward, the operations in London, Hamburg, and New York were dependent upon agencies.[54] In other words, the overseas operations were reliant on foreign merchants to an extremely high degree.

In 1909 Suzuki and Co. consciously adopted the policy to become a general trading company, which can be seen in the founding of the Nihon Trading Company. Since there were scarcely any school graduates employed by this company, it was hardly possible that its overseas business would have succeeded. An exceptional case was Bunzō Nishikawa who left higher commercial school in 1891 and assisted director Naokichi Kaneko. It was most likely neither possible for the unknown Suzuki and Co. in the Kanto region (eastern part of Japan) to attract school graduates nor was there an intention on the part of Suzuki to do so. Just about the only person who also came from a higher commercial school was Hiroshi Kawai who entered the company in 1896. Around that time, those who were engaged in trade were trading senior clerks working for foreign merchant houses. It was fortunate for the establishment of Nihon Trading in 1909 that Kobe Higher Commercial School had been sending out graduates since 1907. In the following year, Komaki (who later changed his name to Matsubara) became the first to enter Suzuki and Co. from this school, and three more including Takahata joined in 1909, and upon entering the Taishō period (1912-1925), several entered Suzuki and Co. every year.[55] Some school graduate employees resigned from the company in the beginning due to agonizing treatment by senior clerks. However, since the company already had 57 school graduate employees at the outset of the war, the company in the interim had expanded rapidly. Of the 57, 60 per cent graduated from Kobe Higher Commercial School and 20 per cent from Tokyo Higher Commercial School.

Despite its sudden expansion, the company's staff was a mere 10 per cent of the over 700 specialized managers at Mitsui Trading Company at that time. Moreover, this company did not have the kind of know-how regarding overseas trading that was accumulated over a generation when Mitsui was a private corporation.

More importantly, Suzuki and Co. seems to have lacked a company rule centring around the commission business which should have been an empirical ironbound rule in order for the company to maintain and develop as a general trading company. This rule, of course, is not such that it negates altogether the act of speculative buying and selling. There would be cases of secure speculative transactions, if they were based on an intuition nurtured by many years of overseas business. Nevertheless, it is also a fact that no one would become involved in unsuccessful speculation on the basis of his subjective judgement that it might be unsafe. Speculation cannot continue to be successful permanently. It would result in failure in the end and this would be a fatal blow to the company.

Ever since the birth of the Mitsui Trading Company, "one of the principles of foreign trade since the days of its founding was to pursue the sales operations on a commission basis." Any speculative transaction required approval of the headquarters. During the period of unlimited partnership when the company finalized its strategies to develop primarily on the basis of foreign trade, this point was again validated severely.[56] When the postwar boom was coming to an end, the issuance of instructions that stated "pay special attention to the selection of commodities and do not rush recklessly into the pursuit of a large profit in vain" reveals the confirmation of this principle.[57] When the cotton section was made independent in 1920 as Tōyō Cotton Trading, it must have been done in order to avoid any risk deriving from cotton trade which is a commodity that inevitably entails a certain amount of speculative transactions.[58]

On the other hand, Suzuki and Co. does not appear to have had a sufficient accumulation of experience pertaining to overseas business when the war broke out. There were only about 70 school graduates, who had to rely on their few years' experience from the time of graduation. Naokichi Kaneko himself plunged into great speculation as the war broke out; it would be strange if his subordinates did not follow suit. The company hardly had any strict organization rules to speak of, nor did it have any foreign business manual. Since everyone moved in accordance with Kaneko's instructions, it was inevitable that by about 1918 the company became uncontrollable when the volume of business surpassed Mitsui's. When Kaneko himself was about to consider a reduction in the scale of business at the end of the war, as was done by Mitsui, he was already faced with the following situation: "To my surprise, I could not subject them [company employees] to my will. . . ."[59]

First, as stated above, this was a problem of Kaneko's own making, because the fact that he taught his employees speculation and made them elated was deeply correlated to his own viewpoint regarding business profits. Second, there was an organizational weakness which derived from rapid expansion. In a period of several years during the war, an additional large number of school graduates, nearly 100, were employed, and in 1919 over 100 graduates from Kobe Higher Commercial School alone were hired. Thus, those without any experience in overseas trading were committed to the operations in the forefront. It would be too harsh to make them accountable for plunging into speculation.[60]

Thus, the content of overseas business carried out by Suzuki and Co. in the period when this company was competing against Mitsui was actually different than that of Mitsui. The rapid growth in Suzuki's volume of business, which is often discussed, was not a strength, but an indication of weakness as the company was heading toward destruction. When Takahata and Nagai, who became aware of the danger, endeavoured to put an end to that state, it was Kaneko himself who rejected their effort. As a result of his nature as a deeply ingrained speculator, he negated their attempt. Moreover, he was surrounded by his henchmen who followed the trend of senior clerk management.[61] After the death of Bunzō Nishikawa in 1920, who had left Tokyo Higher Commercial School in mid-course and had been Kaneko's right-hand man, there was no employee with a school degree who could advise much older Kaneko on an equal basis. His fault of not having employed competent personnel midway became apparent here. There was an age gap of twenty years between Kaneko and the school graduate cadre. It was not only the organization that was lacking, but also the same held true with manpower. The ironbound rule that a trading company is made by personnel was cold-heartedly realized again in this case.[62]

IV. CONCLUDING REMARKS

The majority of present Japanese general trading companies were created after World War II. Within a few years following the end of the war, old zaibatsu were ordered to dissolve. The remaining trading companies were those specialized firms which had imported cotton or exported cloth (or in some cases sold yarn and cloth) in the domestic market in the period before World War II. The dissolution of zaibatsu businesses was considered an opportunity to extend their marketing business to other lines of goods, thus transforming them into general trading companies. This strategy was not easy to implement at that time, partly because textiles and cotton were still the major goods for Japan's foreign trade and partly because their firms had no experience in handling other products.

Through speculation in the economic boom following the Korean War, Japanese companies suffered enormous losses. The strategy for general trading became urgent. The major policy was to absorb small specialized firms or amalgamate them with other more substantial firms. C. Itoh, Marubeni, Tomen, Nissho Iwai, and Nichimen grew by this and other means. On the other hand, Sumitomo started its own general trading business for the first time. The direct motive for this was to give jobs to the employees of the old Sumitomo zaibatsu. Sumitomo Trading Co. has grown steadily in support of Sumitomo business group without any amalgamation and absorption.

It is often said of Japan that the years of distress are not coming to general trading companies. Although there are some products most suited to the business of general trading firms — raw materials and foods, for example — the content of Japan's foreign trade is rapidly changing, and the direct sale of industrial enterprises is increasing. However, there appears to be a trend favourable to trading company business. It is a counter-purchase policy which developing countries are taking in recent times.

The top management of general trading companies has already mentioned that the key to success relies on human capital. They have amassed a huge amount of human capital of high quality. As long as human potential is unlimited, it might be said, in a sense, that the possibility of a company's new development is also unlimited.

NOTES

1. Representative works alone are given as follows: Yoshio Togai, Mitsui Bussan Kabushiki Kaisha no Keiei-shi teki Kenkyū [A study of the Mitsui Trading Company and its business history] (Tōyō Keizai Shimpōsha, 1974); Miyamoto, Togai, and Mishima, eds., Sōgō-shōsha no Keiei-shi [General trading companies and their business history] (Tōyō Keizai Shimpōsha, 1976); Nobuo Kawabe, Sōgō-shōsha no Kenkyū [A study of the general trading company] (Jikkyō Shuppan, 1982).

2. Refer to the following two representative papers: Keiichirō Nakagawa, "Nihon no Kōgyōka Katei ni okeru Soshiki sareta Kigyōsha Katsudō" [Activities of organized enterprisers in the process of Japanese industrialization], Keieishigaku [Business history studies], Vol. 2, No. 3 (1967); Kozo Yamamura, "Sōgō-shōsha ron — Kindai Keizaigaku-teki Riron yori no Ichi-shiron" [On the general trading company — an essay on the basis of modern economic theory], Keieishigaku, Vol. 8, No. 1 (1973).

3. Kozo Yamamura's thesis gives an extremely interesting theoretical explanation, but it does not delve into the key reason as to why general trading companies germinated only in Japan. He surmises the reasons because he himself is well aware of the need of explanation in this regard, but they are not convincing. Refer to the following: K. Yamamura, "General Trading Companies in Japan — Their Origins and Growth," in Japanese Industrialization and Its Social Consequences, ed. by H. Patrick (Berkeley, 1976).

4. Therefore, it would also be insufficient to explain the theoretical basis of the establishment of general trading companies solely from the various conditions which accompanied Japanese industrialization after the Meiji era.

5. Refer to the aforementioned Kozo Yamamura's neatly organized paper with regard to a theoretical examination of the origins of general trading companies.

6. Regarding this point, refer to my article entitled "Indo Bōseki Kabushiki Kaisha ni okeru Keiei Dairi Seido no Teichaku Katei" [The establishment process of the managing agency system at Indian spinning mills], Ikkyō Ronsō, Vol. 85, No. 1 (1980).

7. In this connection, the founding of Boston Manufacturing Company which was the first large-scale spinning mill in the United States by Boston Associates would be the most widely known. In Japan,

also, merchants played not a small role in the establishment of spinning mills. Kanegafuchi Spinning and Tokyo Spinning, in particular, were founded mainly by merchants.

8. Regarding this topic, the following word is representative: S.J. Chapman, The Lancashire Cotton Industry (Manchester, 1904). This is the basis of Professor Keiichirō Nakagawa's argument.

9. Although there are innumerable works pertaining to the nineteenth century trading companies of this type, there are not many company histories in detail. Such company histories as the two which are expatiated later in this paper are the most representative. R.M. Hower, "James Talcott and Factoring," Bulletin of Business Historical Society (hereafter abbreviated as BBHS), Vol. 11, No. 2 (1937); M.E. Hidy, "The George Peabody Papers," BBHS, Vol. 12, No. 1 (1938); H. Corning, "The Autobiography of a Salem Merchant," BBHS, Vol. 12, No. 3 (1938); S.M. Jennings, "Notes on Joseph Hertzog, an Early Philadelphia Merchant," BBHS, Vol. 14, No. 5 (1940); T.F. Marburg, "Commission Merchant in the Button and Brass Trade a Century Ago," BBHS, Vol. 16, No. 1 (1942); J.D. Chambers, "The Memoir of a Nottingham Lace Merchant: William Cripps, 1798-1884," BBHS, Vol. 24, No. 2 (1950); J.B. Frantz, "The Mercantile House of Mckinney & Williams, Underwriters of the Texas Revolution," BBHS, Vol. 26, No. 1 (1952); A. Shafer, "The William Brothers, Merchants and Shippers, 1825-1850," BBHS, Vol. 26, No. 2 (1952); Kwang-Ching Liu, "Financing a Steam-Navigation Company in China, 1861-1862," BBHS, Vol. 28, No. 2 (1954); S.G. Checkland, "An English Merchant House in China after 1842," BBHS, Vol. 27, No. 3 (1953); B.E. Supple, "A Business Elite: German-Jewish Financiers in Nineteenth Century New York," Business History Review (hereafter abbreviated as BHR), Vol. 31, No. 2 (1957); I.D. Neu, "An English Businessman in Sicily, 1806-1861," BHR, Vol. 31, No. 4 (1957); S. Bruchey, "Success and Failure Factors: American Merchants in Foreign Trade in the Eighteenth and Early Nineteenth Centuries," BHR, Vol. 32, No. 3 (1958); J. Killick, "Risk, Specialization and Profit in the Mercantile Sector of the Nineteenth Century Cotton Trade: Alexander Brown and Sons," Business History, Vol. 16, No. 1 (1974); D. Greenberg, "Yankee Financiers and the Establishment of Trans-atlantic Partnerships: A Re-examination," Business History, Vol. 16, No. 1 (1974); A. MacCrae, "The Irrawaddy Flotilla Company," Business History, Vol. 22, No. 1 (1980); V.B. Reber, "Speculation and Commerce in Buenos Aires: The Hugh Dallas House, 1816-1822," Business History, Vol. 20, No. 1 (1978).

10. It is interesting to examine the motivation for the opening of private companies or non-public joint-stock companies, but as far as I know, their first intention was to introduce stock capital.

11. When a trading company itself begins to have the function of a financial agency, the necessary capital naturally never stays at a small amount. This, however, is a situation which arises after becoming agglomerated. Increased business credibility is sufficient when the target is only to quantitatively increase the sales of a single commodity.

12. Refer to various works mentioned in note 9.

13. Antony Gibbs and Co., which is explained next in this paper, was a typical case.

14. Shin'ichi Yonekawa, "Kakkoku Bōseki Kigyō Seichō no Keiei-shi teki Kaimei" [Business historical analysis regarding the growth of spinning industries in various countries], in Kigyō Katsudō no Riron to Rekishi [Theory and history of enterprise activities], ed. by Yonekawa and Hirata (Chikuma-shobō, 1982).

15. In England, merchants having succeeded in East India trade became politicians and advanced into the Parliament already from the end of the eighteenth century. Among the famous politicians, the Gladstone family, for example, made its fortune by slave trade.

16. The following paper gives a vivid account of the circumstances. S.D. Chapman, "British Marketing Enterprise: The Changing Roles of Merchants, Manufacturers, and Financiers, 1700-1860," Business History Review, Vol. 53, No. 2 (1979).

17. Regarding this company, the detailed company history is worth referring to: The Firm, Antony Gibbs and Sons Limited: Merchants and Bankers, 1808-1958 (1958).

18. Ibid., p. 33.

19. It was most likely due to the adjustment with the London headquarters that this office was prohibited from venturing into financing. It can thus be surmised that there was a restriction derived from being a combine of divergent partnerships.

20. Ibid., p. 72.

21. Ibid., pp. 107-21.

22. Keiichiro Nakagawa, "Nihon no Kogyoka Katei ni okeru. . . ." Professor Morikawa's indication appears to be correct even after a perusal of Mitsui Trading Company's history (a draft copy) which was compiled recently. However, attention should be paid to the fact that the opportunity for the establishment of Paris, New York, and London offices was triggered by "the inauguration of overseas exchange transactions." Refer to "Kōhon Mitsui Bussan Kabushi Kaisha Kyakunen-shi" [A centennial history of the Mitsui Trading Company — a draft], Vol. 1 (1978), pp. 159-62, 263-65, 276-79. See also Hidemasa Morikawa, "Sōgō-shōsha no Seiritsu to Ronri" [The origin and theory of general trading companies], in Sōgō-shōsha no Keiei-shi, pp. 43-63.

23. All accounts pertaining to Guthrie Corporation are from Keiko Saruwatari, "Igirisu Shōsha no Keiei Senryaku to Soshiki" [Business strategies and organization of English trading companies], Keieishigaku, Vol. 17, No. 4 (1983). Refer to this paper for further information.

24. Saruwatari's account on Guthrie's control activities as a managing agency is interesting since there has been very little research done on this topic.

25. Such world-famous wholesale companies as Jardine-Matheson and

Harrison and Crossfield can also be called general trading companies. Furthermore, most of the contemporary merchant bankers had grown to be general merchants initially and then came to specialize in the international finance business. The reasons for the specialization would be pertinent to account for the cause that there are few general trading companies in the West. A. Ellis, Heir of Adventure: The Story of Brown, Shipley and Co. (1960); Shin'ichi Yonekawa, ed. Sekai no Zaibatsu Keiei [Zaibatsu management in the world] (1982), pp. 18-20.

26. Refer to M.W. Flinn, Men of Iron: The Crowleys in the Early Iron Industry (Edinburgh, 1962).

27. W.G. Rimmer, Marshalls of Leeds: Flax-Spinners, 1788-1886 (Cambridge), pp. 60-66.

28. Flinn, op. cit., pp. 90-95.

29. There were relatively few cases in which the contract for a partnership was renewed. This was because partners often wished to pursue independent operations even when the business was successful.

30. H. Hartmann, Authority and Organization in German Management (Princeton, 1955), pp. 255 ff.

31. The following paper gives a detailed account: Hatsu Murakami, "Gaishi to Minzoku Shihon — Kyoryūchi Boeki o Chūshin to shite" [Foreign capital and national capital — centring on the settlement trade], in Kōgyōka to Kigyōsha Katsudō [Industrialization and enterprisers' activities], ed. by Tsunehiko Yui (Nihon Keizai Shimbunsha, 1976).

32. "Kohon Mitsui Bussan . . .," p. 13.

33. Ibid., p. 25.

34. Regarding this point there was not much difference between an industrial enterprise and distribution enterprise. The difference rested on whether technology was software or hardware.

35. Mitsui Honsha-shi [A history of the Mitsui head company] states that the Mitsui Trading Company "was started as an existence similar to that of a stepchild." This point is also reiterated by Professor Togai. Nevertheless, it is questionable to define the Mitsui Trading as a "stepchild" immediately because the condition of this company's founding seems to have been derived from the nature of the enterprise itself. See Yoshio Togai, "Sōgō-shōsha to shite no Mitsui Bussan no Teichaku" [The establishment of the Mitsui Trading Company as a general trading company], Keieishigaku, Vol. 3, No. 2, p. 102.

36. In this regard, the works by Professor Shigeaki Yasuoka have much to offer. His most representative work is "Nihon Zaibatsu no Rekishi-teki Chii" [The historical position of Japanese zaibatsu], in Nihon no Zaibatsu [Japanese zaibatsu], ed. by Yasuoka (Nihon Keizai Shimbunsha, 1976).

37. "Kōhon Mitsui Bussan . . .," p. 61.

38. "Kōtō Shōgyo Gakkō Enkaku Gairyaku" [A brief history of the higher commercial school], in Tokyo Kōtō Shyōgyō Gakkō Ichiran [A bulletin of Tokyo Higher Commercial School], 1892/93 edition, pp. 1-2.

39. Takashi Masuda served as a member of the Consultation Committee until the end of the Meiji period. Refer to the above Ichiran in note 38.

40. "Kōhon Mitsui Bussan . . .," pp. 55, and 59-60.

41. Miyamoto et al., eds., op. cit., p. 90.

42. Tokyo Kōtō Shōgyō Gakkō Ichiran. Compiled on the basis of editions for different years.

43. Iwai Sangyō Kabushiki Kaisha, Iwai Hyakunen-shi [Iwai's 100 years' history] (1964), p. 127.

44. Formulated on the basis of 1915 bulletins for each higher educational institution and the alumni directories.

45. Nihon Menka Kabushi Kaisha, Kita Matazō Den [A biography of Matazō Kita] (1933), pp. 86-87.

46. Ibid., p. 121.

47. Itoh Chū Shōji Hyakunen [One hundred years of Chū Itoh Trading Company], p. 32.

48. Although the number of C. Itoh's employees around 1912 is recorded to be 325, according to the data mentioned in note 44, the number of school graduate employees was still small in 1914.

49. In this regard, a detailed account is given in Kiyohito Takeda, "Furukawa Shōji to 'Dairen Jiken'" [The Furukawa Trading Company and the "Dairen Incident"], Shakai Kagaku Kenkyū, Vol. 32, No. 2 (1980).

50. I intend to explain the figures in a separate paper in the near future.

51. Provisional figures based on trial calculations. Refer to note 44 for data.

52. Virtually no literature touches upon the bankruptcy of Takada and Co., but this company had invested in mining and spinning from the end of the Meiji period. The immediate causes for the bankruptcy were the Great Kanto Earthquake, the decline of the exchange rate, and the stagnation of affiliated companies. The debt at the time of bankruptcy reached ¥46,800,000. Among the bank credits, the Industrial Bank of Japan was the largest creditor, and the Eiraku Bank which was the company's transaction bank was also hit by a run. See Chūgai Shōgyō Shimpō, 20-23 February 1925.

53. Note the fact that not only did the aforementioned Suzuki and Co., Takada and Co., and Furukawa Trading Company disappear, but also C. Itoh and Nichimen [Nihon Cotton Trading] had hardly any dividend.

54. Yoshio Katsura, "Sangyō Kigyō no Ikusei to Shōsha" [Nurturing of

industrial enterprises and trading companies], in Sōgō-shōsha no Keiei-shi, p. 202.

55. An analysis of each edition from 1907/08 to 1915/16 of Kobe Kōtō Shōgyō Gakkō Ichiran [A bulletin of Kobe Higher Commercial School].

56. "Kōhon Mitsui Bussan . . .," pp. 66, 184.

57. Hiroaki Yamazaki, "1920-nendai no Mitsui Bussan" [The Mitsui Trading Company in the 1920s], in Sengo-ki ni okeru Nihon Keizai [Postwar Japanese economy], ed. by Hidekatsu Nakamura (1981), pp. 309-310.

58. Tōyō Menka Kabushiki Kaisha, Tōmen Yonjūnen-shi [A forty-year history of the Tōyō Cotton Trading Company] (1960), pp. 75-76.

59. Nisshō Kabushi Kaisha, Nisshō Yonjūnen no Ayumi [The course of Nisshō's forty years] (1968), pp. 28-29.

60. Calculated on the basis of Kobe Kōtō Shōgyō Gakkō Ichiran, 1918-19 edition.

61. Nisshō Yonjūnen no Ayumi, p. 74. "Employees who came fresh out of schools did not last long because the senior clerk tormented them regarding business correspondence" (ibid., p. 35). This occurred at about the end of the Meiji period when Suzuki and Co. started to employ school graduates.

62. Nevertheless, whether or not the cause of Suzuki's bankruptcy rests solely on the speculation during World War I is not necessarily clarified. Suzuki himself spoke in this regard as if the immediate cause was due to "the construction of scores of factories which tied more capital than what was made, even though a gigantic profit was obtained through trading during the war." However, attention should be paid to the following: First, because Suzuki and Co. took care of the purchase of raw materials and the sales of goods for these enterprises affiliated with Suzuki and Co., the company would have been able to shift its losses to the rest of its enterprises with the use of transaction prices. Second, should a laxity of supervision at the factories be the cause of bankruptcy, it means that the ultimate responsibility was with the industrial production management which derived from Suzuki's speculative management sense particular to him.