Universe Scientific Publishing

Effects of the Collision and Decomposition of Japanese Business Groups on Group Collapse

Choi Sung-Baig

Director of the Institute of Economics at Xian Peihua University, Shanxi 710000

Abstract: According to the credit-rating agency in Japan, Tokyo Shoko Research, the sales of 27 affiliates of Mitsubishi Group amount to 410 trillion yen, and the number of related companies is as large as 40,000. This is comparable to the total number of companies in Singapore or Finland. The total sales of companies in Japan amount to 1,625 trillion yen, among which, the 3 major groups (Mitsubishi, Mitsui, Sumitomo) account for 60 percent (961 trillion yen). This implies that a number of companies in Japan deal with these 3 major groups in whatever form it may be.

Business groups in Japan have taken lead of the economic growth of Japan as strong stockholders that maintain close unity and mutual cooperation. Recently, however, their unity seems to be weakened, which is expected to affect Japanese companies' competitiveness in any form.

KeyWords: Mitsubishi Group; Economic Scale; Mutual Cooperation; Disruption; Competitive Impact

1. Collapse of government-controlled conglomerates

During the period of 8 years since the Chinese-Japanese War in 1939, 45% of Japanese national territory was destroyed and 41.45% of its national wealth was lost. About 1 million and 850,000 people lost their lives. Including injured ones, the number of victims was as large as 8 million and 750,000. This miserable war resulted from the ambition of the military government and conglomerates towards territories and profits. Particularly, Mitsubishi and Mitsui accumulated significant gains from governmental projects including the government-controlled shipping business in which they took charge of troops transport to battle fields. For example, conglomerates transported 5,600 soldiers to Taiwan and 58,000 in Seinan War. Their businesses grew drastically with the ships transferred from the government. Mitsui trading company made its presence known.

Chaebol and Imperialism-Mitsui and China, Ayako Sakamoto. History of Mitsui Corporation

(Graph 1) shows changes in the quantity of items traded by Mitsui. This indicates that at that time, trading companies acted as a government-controlled company necessary for war. The most significant mission of Mitsui trading company was to secure foodstuffs and energy. The Japanese military could procure foodstuffs locally in invaded territories, but supplies in such regions were purchased and procured by Mitsui trading company. Particularly， because of the serious food shortage in China after the internal war, regions occupied by the Japanese military had difficulties in supplying foodstuffs to certain cities. For this reason, food procurement for Japanese soldiers as much as 850,000 was the most important mission. Professor Kasuga Yutaka at Nagoya University pointed out that Mitsui trading company played a key role in logistics over the so-called "Greater East Asian Co-prosperity Sphere" [1].

At that time, securing energy was crucial to Japan. In 1941 when the U.S. put an embargo on the export of oil to Japan, Mitsui trading company's oil business stopped accordingly. Mitsui trading company invested into the government-controlled Manchurian synthetic fuel business in order to produce synthetic oil and operate Mitsui mines in Manchuria. It conducted research on techniques to synthesize hard coal with petroleum. However, they found it difficult to succeed in this project of developing a new energy, which is challenging even at present, and many in this organization argued to stop this project. Since this was intended by the military, it was hard for a conglomerate to withdraw from this business.

After all, Japan ended up losing the war in August 1945 with significant damages and losses. After the war, the Japanese occupation authorities at GHQ (General Headquarters) aggressively promoted 3 reforms—conglomerate dissolution, farmland reform, and labor law reform—for economic democratization of Japan. Particularly in certain economic areas such as production, distribution, and finance where conglomerates were dominant, such democratization measures against conglomerates were taken thoroughly.

Not only the main office but also affiliates were dissolved, and executives were expelled from the company. Assets of the founder's whole family were frozen or confiscated. The strictest measures were taken against trading companies which managed economic control at that time. Mitsui was divided into 200 companies, and Mitsubishi into 139 companies respectively. In contrast, many reforms in the U.S. were suspended or reversed due to Japanese maintenance of public peace and the Korean War. As a result, the former conglomerates set a cornerstone to revive, and a new form of corporate structure called 'corporate group (conglomerate)' was established.

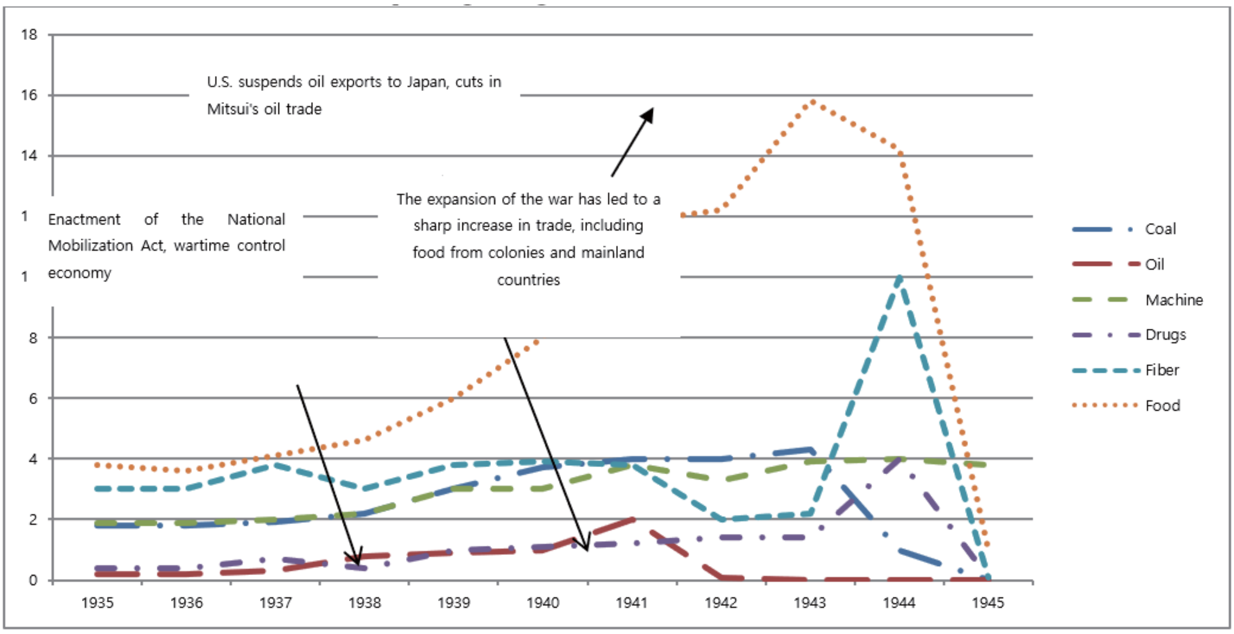


Table 1. Expanding strategic materials and businesses.

2. Formation of a corporate group

In Japan, a conglomerate means a corporate group that dominated the Japanese economy during the prewar period. 3 major examples were Mitsubishi, Mitsui, and Sumitomo. In addition to these 3 groups, the conglomerate that still exists is Yasuda (present Fuyo Group), Asano (present JFE group), and Furukawa (present Furukawa Group). 10 other conglomerates were Mura, Nomura, Nakashima, and Aikawa. 56 individuals in total at 10 major conglomerates were classified as conglomerate families and their assets were frozen. Stocks owned by conglomerate headquarters (holding companies) and related companies owned by the families were sold to employees and ordinary investors.

At that time, as a result of such conglomerate dissolution, a tremendous amount of stocks were discharged to the market and mostly sold to ordinary investors. In 1949, the individual stock ownership ratio was as high as 70%. In 1950, there were buyouts by affiliates of Mitsubishi, which was a former conglomerate, including Youhwa Real Estate, Daisyou kaijyou, and Mitsui Real Estate. This incident threatened stable business management since the intention was not to invest but to seize the right of management.

This incident of corporate buyouts raised awareness of the importance of strong stockholders to defend the right of management among former conglomerates. With such environmental changes, much effort was put forth to acquire stocks of affiliates mainly among financial agencies under former conglomerates. While financial institutions' share of affiliates of the same parent group increased drastically, stocks of such financial institutions were also purchased by affiliates of the same parent group. As a result, an organic relation of reciprocal holding was established among affiliates of the same parent group [2].

Thereafter, the individual stock ownership ratio decreased from 70% in 1949 to 50% in 1958, 40% in the 1970s, and 30% in the 1980s. On the other hand, the corporate ownership ratio increased from 50% in the 1960s to 70% in the 1990s, implying that the incorporation started to be established [3].

This corporatization of stocks was supported by the reciprocal holding of stocks among companies. Corporate groups were formed on the basis of such reciprocal holding of stocks. Companies are closely related to one another in such ways as presidential board, investment, loaning, and executive dispatch under the parent company. As such, many companies gather and form a type of combination. Companies in such a relation are called a corporate group [4].

In general, the goal of a company's acquisition of stocks is to operate the corporate fund or to dominate the other company. In the case of corporate groups in Japan, the goal is to defend the company's right of management and to strengthen the cooperative relation rather than mutual control [5].

3. Weakened unity of a corporate group

Among the 6 major corporate groups, Mitsubishi shows the strongest solidarity. However, even Mitsubishi's unity seems to be weakened. For example, Mitsubishi Motors and Renault Motors are in the partner relation of Nissan and Renault, and the CEOs attended and jointly responded in business management meetings regarding Mitsubishi trading company which is a main company of Mitsubishi Group, Mitsubishi Heavy Industries, Mitsubishi UFJ Bank, etc. because of the management control. In 2004 when the fake recall issue of Mitsubishi Motors as well, the three companies made a prompt resolution on the financial support. Recently, however, the 3 companies do not actively participate in such major issues as Mitsubishi SPACE JET capital increase, Mitsubishi material quality issue, etc.

3.1Mitsubishi

Recently, 3 major companies under Mitsubishi Group are not cooperative with one another. First of all, difference in their performance is one major reason of the breakdown of their unity. Mitsubishi Motors maintains a distance from other group members whose business potential is relatively low. The number of executives dispatched by Mitsubishi Motors to other group members (September 2016-June 2019) decreased from 33 to 25 in the case of Mitsubishi Trading Company and from 15 to 5 in the case of Mitsubishi Heavy Industries. Particularly regarding Mitsubishi Heavy Industries, there was no dispatch to group members irrelevant to the main business. The implicit hierarchy in the group is also collapsing. For example, material-related companies maintain a high position in the industry although their ranking within the group is low. Since they can run businesses independently with no need to follow the custom in the group, they show less interest in the group solidarity. During the postwar period, Japanese unique, closely united corporate groups maintained the superiority in external strategies and mutual cooperation in the symbiotic relation. Currently. However, a shift is emerging in reflection of the environmental changes.

In addition, as the role of trading companies is emphasized among global companies recently, the relation among 3 companies is not as in the past. For example, Mitsubishi aircraft business under Mitsubishi Heavy Industries started in 2008 but currently involves expense issues due to the challenges of aircraft development. So far, this business has depended on Mitsubishi Heavy Industries in this regard. Although the trading company also invested into Mitsubishi aircraft business, it has not reinvested into Mitsubishi Heavy Industries. Mitsubishi trading company either has not expressed its intention of investment, and the system of mutual cooperation seems to collapse.

3.2 Sumitomo

The 4 businesses derived from the copper business in the Edo period—metalliferous mine, forestry, heavy machine industry, and chemical—have become key businesses of the group. Thereafter, the affiliate businesses expanded to include the finance business in the Meiji period, and then Sumitomo trading and real estate businesses after the World War II. The origin of Sumitomo, which grew mainly with the business of copper refinement since the Edo period, was the corporate group in Kansai, Osaka.

Currently, however, most corporate groups have their headquarters in Tokyo, and the business performance of mining which is the origin of Sumitomo is not as high as before. The metalliferous mining business which is the root of the group has recorded deficit for 2 consecutive years in 2015 and 2016 due to resource price decrease. The net profit in the year of 2018 was as low as 66.7 billion yen, which indicates 26% decrease in comparison with the net profit in the previous year. Sumitomo chemical business as well recorded profit decrease due to the slump of the petrochemical industry. This is not the first challenge that Sumitomo faces. In 2012, former Sumitomo metalworking business, which was a key business of Sumitomo at that time, withdrew from the supreme council as it was merged with former Nippon Steel Corporation. Currently, it even does not use the trade name 'Sumitomo.' Even Sumitomo Group, which is known as a conservative group, shows such a breakdown of solidarity at present.

3.3Mitsui

Among corporate groups, Mitsui shows the most flexible characteristic when it comes to solidarity. Mitsui Life Insurance Company Limited, however, withdrew from the supreme council. The origin of former Mitsui Life Insurance Company was KAO Corp., which was founded by a shop owner in Ginza, Tokyo, in 1914. In 1926, Mitsui company became a major shareholder as a leading company under Mitsui Conglomerate. In 2016, however, it was merged with the Japanese Life Insurance Industry, and the use of Mitsui trademark became an issue because it withdrew from the supreme council. After all, this company under the Japanese Life Insurance Industry was not permitted to use the trade name of Mitsui and changed its name to Daisu Life Insurance although it still attends the top management meeting of Mitsui Group. Even if it is not permitted to use the trade name, complete withdrawal from the parent group is not required as long as its remaining as a member is advantageous. This is why Sumitomo is known for the 'pure blood custom' but Mitsui takes realism as long as it is advantageous.

4. Image change of corporate groups

Recently, the image of corporate groups is changing. While their high income offers and job stability attracted any job seekers in the past, now the condition is a bit different. (Table 2) The ranks of MitsubishiUFJ Bank and Mitsui Sumitomo Bank, which were always ranked high among job-seeking students, have decreased drastically recently. Among the 3 banks including Mizuho Financial Group, MitsubishiUFJ Bank is ranked slightly higher than the others, but the difference is insignificant. While the average wage at corporate group banks is relatively high, the rank is decreasing probably because of the low interest rate, and the difficulty to transfer to another business area.

Table 2. Desired employment preference ranking.

1	Nothing in particular	24.5
2	Toyota	20.5
3	Panasonic	15.2
4	Google	14.2
5	Santory	11.6
6	Sony	11.4
7	Apple	10.7
8	Amazon	10.1
9	JR	9.5
10	Laguten	9.4

11	Mitsubishi	8.1
12	NTT	7.8
13	Honda	7.8
14	Itochu	7.2
15	Mitsui	7.0
16	Sumitomo	6.1
17	Hitachi	6.1
18	Softbank	6.0
19	JT	3.2
20	Uniqro	2.7

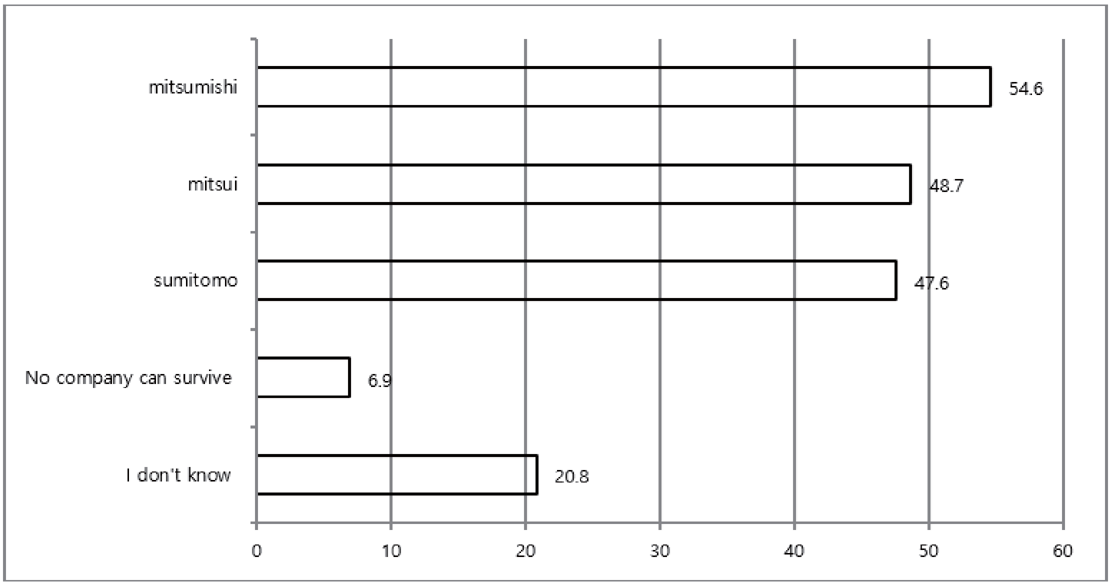
Dong yang Economic Daily (2019.7), Survey

5. Conclusion

The unity of corporate groups is weakened for the following reasons: First, as large-scale banks which played a key role in the group during the postwar period were reorganized and excluded from the group's main positions. As a result, their pivotal role in the group has been weakened. Second, as global investors criticize the corporate governance among Japanese companies, the reciprocal holding custom which was the origin of group solidarity has become weakened. Third, as the world was globalized rapidly, each member's independent strength was required rather than reliance on the corporate group, the influence of such groups has decreased. Fourth, corporate groups have turned to be an independent corporate group. Major examples are the 3 corporate groups and 5 groups with their independent companies representing Japan including Toyota and Softbank. Mitsubishi Group is still thriving as its sales are 69.7 trillion yen and the net profit of the current term is 3.5 trillion yen. However, Toyota and Softbank record higher market values when the firm size is considered. A common feature of these two is to increase investment for technology. With its vision, fund, etc., Softbank invests a tremendous amount into technology businesses in transportation, AI, and finance areas. This is why Softbank is called a technology-independent corporate group. Last year, Toyota created an alliance with Softbank in such areas as autonomous driving, accelerating their group working with R&D in the same areas. While Toyota is dominant in making products, Softbank is advantageous in terms of appraised value. Through the partnership between them, Toyota can realize dynamic and flexible investment strategies which would not be easy for itself.

It is highly likely that corporate group members also become an independent corporate group. For example, some trading companies are turning to be an independent corporate group. Originally, trading companies would play a role in maintaining connections among companies under the parent group. In 2004 when Mitsubishi Motors faced the business crisis, it was Mitsubishi trading company that took the lead of assistance. Mitsubishi trading company played the key role in supporting Mitsubishi Motors because of the expected profits. As such, a trading company's main business was the role as an intermediary between companies and buyers in such matters as import/export after business establishment, mid-distribution, etc. As times have changed, however, digital platforms such as GAFA (Google, Apple, Facebook, Amazon) weakened the intermediary role of trading companies, and such brokerage business has shown its limitations. Trading companies have started to change their businesses by investing a tremendous amount into mining businesses, etc. It is necessary, therefore, to pay sharp attention to effects of the weakening of solidarity among corporate groups on the competitiveness of Japanese companies.

Table 3. A company that thinks it can survive in 30 years.



References

1. Yuta K. Imperial Japan and chaebol Corporation, Nagoya University Press [J]. 2010
2. Okumura H. Japan's post-war stock ownership structure, post-war securities and economy theory, Dong Yang Economic Daily [J]. Vol.188.
3. Okumura H. Post-war Japanese Industrial History, Securities [J]. Oriental Economic Daily 1995; Vol. 954.
4. Kazuo M. After the War, Japan Business Group [J]. Japan Economic Daily 1976; Vol. 61.
5. Kitsukawa T. The Debate on Japanese Business Groups After the War [J]. Social Sciences Research, Tokyo University Institute of Social Sciences 1996; Vol. 48.