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General Trading Companies in a Comparative Context

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Are General Trading Companies Unique to Japan?

Japanese general trading companies (*sogo shosha*) in the post-war 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 that the general trading companies played in the construction of Japan's post-war 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 area of study.[2]

As a result of the great volume of research on general trading companies, the actual conditions pertaining to their development have been clarified considerably. Unfortunately, however, not much research has been done on them from the viewpoint of comparative world business history. Due to this lack of an 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 world-wide scale" – have been Mitsui Bussan and Mitsubishi Shoji. Both companies once formed a part of business combines called *zaibatsu*, and most scholars would assume that they were able to develop as a result of having been part of *zaibatsu* groups.

If the *zaibatsu* is a business phenomenon peculiar to Japan, it might not be unnatural to take a step further and infer that the general trading company, too, is 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*.[3]

In the past, the development of Mitsui Bussan was explained as a unique phenomenon characterized by the historical and particular features that accompanied the processes of Japanese industrialization. However, if this is the case, then the plan to nurture general trading companies in various countries at present would ultimately result in nothing of practical use. I do not say that an enterprise has no correlation with the business environment in which it germinated and grew. Nevertheless, the past approach seems to deserve questioning, since 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.

The facts are not so simple. A comprehensive view of Japan's general trading companies shows that many of them are products of the post–World War II period. It is true that they originated before World War II, but it would be as well to consider them specialized trading companies in the pre–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. This was mainly attained by absorbing other such small, but specialized, trading companies similar to themselves. Engaged in the textile businesses in the pre-war period, they intended to diversify into other fields of trade that were not familiar to them, because the textile business was declining in the late 1950s. The disorganization of Mitsui Bussan and Mitsubishi Shoji afforded a good opportunity to turn into general trading companies. Before long, however, it was seen that this was not easy, because a variety of experienced staff was necessary in order to be able to handle new commodities. They found that the easiest way to advance was to absorb or amalgamate with specialized trading companies that dealt in commodities where they lacked needed expertise. Such amalgamations created Marubeni, C. Itoh, and Nissho-Iwai. It is useful to add that these amalgamations were often promoted under the auspices of the bank that had financed them.

In order to promote growth into general trading companies, specialized trading companies had to follow several steps: expand their markets and pursue operations in uncultivated countries; handle new commodities; devise new markets, for example, set up trilateral trade with foreign countries. This may be called a "widening" of their business activities. There are other steps that may be understood as a "deepening" of business activities. They include such activities as skilfully allocating ships or utilizing freight space in shuttle vessels; financing manufacturing companies to monopolize the sales of their products; functioning as an organizer between companies participating in joint projects. Throughout this growth process, general trading companies diversified their business into "other services."[4] As is later mentioned, this diversification was also observed in British trading houses in their formative period.

It is important to emphasize that the way leading from specialized trading companies to general trading companies is not short and straight, and that there is a wide grey zone in between both extremes. There is also a grey area between the general trading company and the trade-oriented conglomerate. In comparative studies, therefore, we should pay much attention to these grey zones. A number of trading companies in the West have developed, deviating from specialized trading companies, and could not fully diversify into general trading companies.

A Japanese scholar has introduced a theory of the general trading company in which he argues that the transaction cost was minimized by means of handling a multitude of commodities on a world-wide scale.[5] This is persuasive, but why is this not applicable to Western trading companies? Both the economic circumstances and the internal structure should be taken into consideration in order to understand the growth of the general trading company. By economic circumstances, I mean the following three phases: first, how the forward integration of manufacturing companies proceeded in each economy; second, how the initial conditions of industrialization proceeded in each economy; and third, how the national economy depended upon foreign trade.

Sales and purchasing functions for manufacturing companies could be carried by manufacturing companies themselves: this is a kind of forward integration. And if they are quick to integrate these functions, specialized trading companies not only lose the opportunity of diversifying into general trading companies but also cannot survive even as specialized trading companies. In the United States, the movement of integration by manufacturing companies was such that there was no room left for the survival of specialized and general trading companies. At one time, however, trading companies in the British colony could diversify into fledgling general trading companies because manufacturing companies of the home country could not integrate purchasing and sales functions in such a marginal territory.

One scholar put emphasis on a "cultural gap" to explain the growth of general trading companies in pre-war Japan. In the Meiji period, it was only possible for educated people to be engaged in foreign trade. "The inability of manufacturers to handle foreign trade was one major reason for the emergence of *sogo shosha* in Japan."[6] It was argued that trading companies which germinated in the developing country tended to develop into general trading companies in order to make the best use of their management resources.[7] These arguments are concerned with the initial condition of industrialization in the countries where the general trading companies originated.

The extent of the dependence on foreign trade in a national economy is of some importance for the growth of general trading companies. It is certainly true to say that Japan's economy has not depended largely upon her foreign trades in both of the pre- and post-war periods. It accounted for some 16.8 per cent between 1897 and 1906 and some 20.9 per cent of the GNP between 1966 and 1970.[8] Nevertheless, her dependence on foreign trade has carried strategic importance for her economy, and such importance has formed a national consensus from the start of her industrialization. This consensus has been instrumental in recruiting human resources for trading companies. In the United States, on the other hand, the dependence upon foreign trade has been marginal. Wholesale merchants had an ample opportunity to organize domestic retail markets.

In addition to economic circumstances, the structure of the company is of equal importance for the growth of the general trading company. This will in some measure explain why the general trading company has not emerged in the West. Hence, I should elaborate on this point in more detail.

It is generally asserted that the wholesale industry in the West has been characterized by the existence of specialized trading companies that emerged upon the development of a modern industrial society. This is in stark contrast to the way in which the general trading companies germinated in Japan. For example, there was specialization in the cotton industry in nineteenth-century Lancashire, in which there were cotton merchants who imported raw cotton, cotton dealers for the domestic market, and cloth merchants for export. Integration in the cotton industry did not proceed in twentieth-century Lancashire. The modern distribution enterprise did not appear. Thus, the characteristics of such specialized trading houses are the starting point of this investigation.

First of all, these specialized trading houses, almost without exception, remained family businesses. It was imperative for industrial enterprises to put in a large fixed investment to keep abreast of technological developments if they intended to maintain competitiveness. Nevertheless, there was no intense external impact on the distribution enterprises, which were not directly affected by the constant surge of technological innovation. They, therefore, were apt to maintain their conventional operation. It is not accurate to presuppose that trading houses like these will, in a modern society, become public enterprises in due time.

Whether the traditional trading houses undertook business in the form of a partnership or a private company, they had to overcome a number of obstacles before growing into general trading businesses. This is the major reason why their diversification speeded up with the conversion to public companies in the post-war period.

Ordinarily, the base of operations of a trading house was limited to the business office in its place of origin; trading houses were single-unit enterprises. Overseas business activities were entrusted entirely to agents who received a fair amount in handling fees. Because these agents had already been engaged in their own business, they rarely took any active part in the development of business. If they intended to pursue overseas operations themselves, they would have to establish an overseas base with a new partner found at the actual locale. A federation of such local partnerships might contribute to the creation of a general trading house.

However, partnerships are not permanent enterprises, and, in order to operate multiple partnerships with mutually close contacts, the entrepreneur at the core has to have extraordinary business capabilities. Without such capabilities, the interests of multiple partnerships are destroyed; and each partnership begins to pursue business without any unifying objective. This leads to the conclusion that in order to grow into general trading companies, traditional trading houses have to be reorganized as managerial enterprises, to use Professor A. D. Chandler, Jr.'s terminology.[9]

Even if partnerships were converted to private companies, these barriers could not be overtaken, because their management differed little from that of their predecessors. Private companies could neither raise the capital nor recruit human capital from the public. It is often said that the main assets of trading companies are in human capital. In parallel with their expansion, a shortage of human resources is a severe limiting factor in the diversification of their trading activities.

With the diversification of trading businesses, another burdensome problem emerges: the establishment of a modern organization, including the internal auditing system. Easy entry in the trading business means tough competition. The rise and fall of trading houses have been prominent phenomena. Some successful traders draw from their businesses, establishing themselves as *rentiers*, but a great number of traders failed due to their speculation in commodities. It is widely known that commodities handled by trading companies are generally suitable for these kinds of bulk dealings, and their prices are very changeable. Tough competition drives trading companies to go beyond the mere commission business and extend themselves into becoming dealers who purchase commodities when they are judged to be at a low price, hoard them, and sell later: they venture into speculation. Both small traders and general trading companies are aware that speculation in commodities can be profitable, but that it is also too risky a business in which to maintain success. In particular, some organizational devices become essential in order to check the dangers of speculation. Diversified trading businesses on a world-wide scale need a sophisticated organization in which a major constituent is an efficient internal auditing system; but this is most difficult to create for general trading companies. Mitsui Bussan went through a period of trial and error to take preventive measures against speculation; Suzuki Shoten failed in its organization-building, with the result that it eventually went into bankruptcy, as will be mentioned later. The above statement clarifies the importance of the economic circumstances in which specialized trading companies can grow into mature general trading companies and create the organizational structures with which they have to be equipped. This, to a considerable extent, explains why traditional Western trading houses had little opportunity to diversify their businesses. However, this does not necessarily mean that there have been few cases in which they took a step further toward becoming general trading companies. I will describe some cases in the next section.

The Development of Trading Companies in the West

There are many international merchant businesses listed in *Times 1000: The World Top Companies* that could possibly become general trading companies. The amalgamation movement of the 1960s seems to have been of importance in the growth of these large trading companies. A considerable number of them, however, are still private companies. At any rate, whether or not they will actually develop into general trading companies remains to be seen.

This section will take up several cases among a handful of enterprises that are on the way to diversifying their trading business. I will start with Antony Gibbs and Co., whose business activities are entitled to be thought of as those of a general trading company in the pre-war period.

Antony Gibbs and Co.

Antony Gibbs and Co. goes back to the early nineteenth century.[10] 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 both domestically and abroad under the second-generation leadership of H. H. Gibbs, who engaged in the management for more than half a century. 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.[11] The company gained the favour of the Peruvian government and thus acquired monopoly rights 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 rights 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 organized 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, as 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 advanced into international financial business on the basis of the affluent overseas enterprises.[12] This occurred just when the city was becoming a 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 that 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.[13] 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 worldwide 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.[14]

It was felt necessary for Gibbs and Co. to change even further in order to survive in the new economic conditions that 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 expected results. However, the company was nominated as secretary of the London Commodity Exchange immediately after the war and carried out dealings in numerous 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 prevailing economic environment.

The above is a brief account of the development of Gibbs and Co. Its 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.[15]

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 that the company should 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.[16] 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 plan 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.

Gibbs's trading activities were phenomenal even in the years prior to World War I, and were presumably only comparable to those of Mitsui Bussan. Why could it deal so successfully? One reason is simply that it was very cautious in dealing in unfamiliar commodities, even if they looked profitable. When the Melbourne office intended to handle wool and wheat, the London head office wrote back: "What is most essential is that we should *know* the business. I know how the wool business is managed, but as to wheat, I think a somewhat hazardous experiment is being made."[17] It also stuck to the commission business. In regard to jute goods, the head office wrote: "The market risks involved in trading in jute goods, *unless a system of simultaneous purchases and sales is practicible*, are often so considerable that we should doubt whether or not the business is really deserving of your attention."[18] It is with this prudence that, in spite of the loose organization, it could build a world-wide business dynasty.

British Colonial Trading Companies

The three companies of Harrison & Crosfield Co., Ltd., Guthrie Corporation, Ltd., and Jardine, Matheson Co., Ltd. are able to be summarized as British colonial merchant houses.[19] These firms all started as foreign traders in the first half of the last century. While Harrison & Crosfield was a London-based wholesaler which dealt in tea and coffee, both Guthrie and Jardine, Matheson were based in Singapore and Hong Kong, trading in a multitude of commodities from the beginning.[20] Before long, they both turned to the businesses of finance and shipping. When the original business became unprofitable during the Great Depression, they all set about diversifying. Harrison & Crosfield started exporting tea directly to Colombo, Calcutta, New York, and Montreal, by means of forming a partnership in each city. It also undertook the managing of tea estates, and, with the coming of brisk trade in rubber goods, did not lose the opportunity to manage rubber estates.[21] During the same period, Guthrie turned its hand to financing tin mines and coffee estates, and at the beginning of the twentieth century, started managing rubber estates and later estates of palm-oil.[22]

On the other hand, Jardine, Matheson was more active than the others in its business policies. Soon after its foundation, it opened branches in London, Shanghai, Amoy, Yokohama, and Kobe. In addition to import and export businesses, it diversified into shipping and shipping agencies. From the 1870s on, it invested in the industries of silk-reeling, sugar-refining, railway construction, and cotton-spinning. In 1921, its ship-repairing department was developed and transformed into Jardine Engineering Co., Ltd.[23]

It was after World War II, however, that the diversification of these three firms proceeded on a world-wide scale to a remarkable extent. Harrison & Crosfield's strategy of the post-war period was first to diversify in regard to both industrial and geographical areas, and secondly to consolidate a number of its business activities. As early as in 1938, it bought out Dillons Chemical Co., Ltd. Its diversification greatly increased in the post-war period. It added a number of manufacturing companies in the United Kingdom and the United States whose products included rubber, fine chemicals, and glass. It consolidated the business of estates management by means of founding Harrison's Malaysian Estates, a holding company, in 1976.[24]

Guthrie's strategy was the same as Harrison's. It controlled not only three subsidiaries which were all connected with the rubber and palm industries, but also bought out chemical and textile companies in Europe and mining companies in the United States. The group was consolidated when Guthrie Corporation Ltd., a holding company, was created in 1968.[25]

Jardine, Matheson, however, enjoyed the most spectacular growth of all three, supported by Hong Kong's economic development. Its business area so far covers more than 20 countries. The group has as a whole moved beyond that of a general trading company in the sense that among the total income of 1980 foreign trade, services, banking, natural resources, and real estate occupied 21, 33, 16, 15, and 15 per cent, respecitvely.[26]

The above three companies are still in a state of being on their way to becoming general trading companies in the sense that their trading business is still not carried on a world-wide scale. Inchcape Ltd., however, should probably be considered a fully-fledged general trading company. Controlling some 400 subsidiaries in the late 1970s, it deals in a multitude of commodities on a world-wide scale.[27]

The present Inchcape is a company with a most complicated history, but its growth can be divided into two periods; up to the formation of Inchcape Ltd. in 1958, and from 1958 to the present time.[28] The former period was a time of slow growth in contrast with the rapid growth of the latter. The group originated in a West India-based general trading house called Mackinnon Mackenzie & Co. Merchants engaged in foreign trade have to find ships to send off goods that they collect and in due time they become familiar with the shipping business, with the result that they are nominated as shipping agents. Shipping agents, in turn, have to collect goods to ship off, and, having expertise in handling commodities, become involved in the business of foreign trade. Thus, the trading business runs parallel with the agency business of shipping. Some companies that were later amalgamated as Inchcape Ltd. were associated with each other as agents of the British India Steam Navigation Company, which was floated in 1862 by Mackinnon Mackenzie & Co. Then, the company itself was nominated as the agent. In addition, it originally contained one of the Mackinnon firms as a partner. The following belong to such cases: Macneill & Co., based in north India; Smith Mackenzie & Co., based in East Africa; Macdonald, Hamilton & Co., based in Australia; Gray, Mackenzie & Co., based in the Persian Gulf; and Gray, Dawes & Co. of London. Almost all of them had their origin in the last half of the nineteenth century. These companies had certain features and business characteristics in common. In addition to the businesses of foreign trade and shipping agencies, many of them undertook the management of estates or industries. This is applicable in particular to merchant houses based in India. The three companies of Barry, Macneill, and Kilburn each set about the management of tea estates. Binnys and Co. of southern India succeeded in managing both coffee estates and cotton mills. Binnys and Smith Mackenzie diversified into engineering. Macdonald, Hamilton & Co. ran mining and pastoral businesses. Originating in the London agent of B. I. and connected with the Mackinnon family, Gray, Dawes & Co. tended to concentrate on the banking business, and was recognized as a merchant bank. Binnys also remained as a banking firm up to 1949. Many of these companies were concurrently engaged in the agency business of insurance.

J. L. Mackey, later the first Lord of Inchcape, made a figure not only in Mackinnon, Mackenzie and Co. but also in Indian business circles in the 1890s. It is through Mackey and his company that these individual companies were amalgamated. As mentioned, many of them were associated with Mackinnon, Mackenzie & Co. from the start.

The gradual process of absorbtion of the three companies based in northern India into the Inchcape complex began in 1915. In 1906, Mackey controlled Binnys, which was then in financial difficulty. There was a federation of companies associated with Lord Inchcape until Inchcape Ltd., a holding company, was formed and went public in 1958. Thus, consolidation as a group was attained. Even at the time of forming Inchcape Ltd., its business activities mainly covered such areas as India, the Middle East, Australia, and Africa. Its activities, however, have been accelerated since the formation of the group. It absorbed a number of trading companies, among which the following are of more importance. Registered in London just after the enactment of the Companies Act of 1856, Borneo Co.'s activities reached such wide areas as Singapore, Jakarta, Hong Kong, Thailand, and Sarawak, diversifying into manufacturing and mining. The group bought it out completely in 1966. Two years later, it also absorbed Gilman (Holdings) Ltd., which, originating in about 1840, was a Hong Kong-based trading company, having a long history of trade with China. Another Hong Kong-based company absorbed by the group, in 1972, was Dodwell & Co., Ltd., a trading business which was most active in the post-war period, reaching to Canada. Small though its business scale was, Atkins Kroll & Co. was of equal importance in the sense that it was based in San Francisco, trading with Australia, New Zealand, Guam, and the Philippines. In 1974, it was absorbed by the group. Also of importance is the group's expansion to home and European countries. Its most remarkable success was the acquisition of the J. H. Little group in 1968, which was engaged in trade with the East European countries. The Inchcape group also controlled, through its Borneo company, Harborn Ltd., a British company, which established two wholly owned subsidiaries, one in the Netherlands and one in France, primarily engaged in commodities trading. The group, furthermore, succeeded in acquiring the well-known company of Mann, Egarton Ltd., which was one of the largest Leyland dealers in the United Kingdom. Inchcape had such great success in the distribution of motor vehicles that business accounted for some 35 per cent of the group's gross profits in the late 1970s.[29]

American Trading Companies

In 1956, *Fortune* listed 50 merchandising firms, most of them corresponding to "supermarkets" or "mail-order companies" in Japan, but there were 10 firms that were specifically described as "wholesaler and distributor"; they were unique in that most of them were operating without offering shares for public subscription. Anderson, Clayton and Co., Inc., however, was an exception in the American context because it had offered shares for public subscription and also because it had developed as a general trading company.

This firm was founded by William Lockhart Clayton (1880–1966), who, in 1904, formed a partnership trading cotton.[30] Two years later he began operating a ginning factory and a cotton-seed oil factory, soon becoming the largest trader of this category of products. His firm was incorporated in 1920 during the post–World War I depression, and offered its shares for public subscription in 1929 in the state of Delaware. But the firm continued to specialize in cotton and cotton-seed oil trade until World War II. When, in 1923, it obtained a licence to engage in non-life insurance, it presumably did so for the sole purpose of providing a hedge against price fluctuations of the cotton-related products. Its expansion into Mexico, Brazil, and Peru, as well as its overseas plant construction, were exclusively related to the cotton trade.

It was only in the late 1950s that this firm made a major shift in its operations, when the cotton industry became a "sick industry," making it almost hopeless to expect big margins in cotton trade. The government policy of cotton price stabilization also served to eliminate meaningful margins in speculative dealings in cotton. And the new strategy it adopted was a familiar one to any trading company: diversification of the products it handled in the countries where it had established a stronghold. In the case of this firm, it emphasized the following three areas. First, it purchased a number of insurance companies in a variety of areas in order to make insurance business one of the pillars of the entire company. Secondly, it advanced into the food market with margarine and dressings, products secondary to the production of cotton-seed oil. Already in 1952 it had purchased Mrs. Tucker's Foods, Inc. (est. 1913) to obtain a foot-hold in this market, and in 1955 it absorbed a major cotton-seed oil company, Southland Cotton Oil, to consolidate its standing in the new market. Thirdly, it started to handle coffee and cocoa, both primary products, in order to make some use of its overseas experience, particularly in Latin America. When it acquired a coffee importer, S. A. Medina Co., in 1955, it immediately became one of the largest importers of Brazilian coffee. A decade or so later, it handled a drastically altered group of products. The three major commodities it handled in 1973 were cotton-seed oil/oil-cake, coffee/cocoa, and foods, occupying 30, 24, and 23 per cent of total merchandise sales, respectively.[31]

However, the firm did not pursue this road of diversification to the extent of becoming a full-fledged general trading company. Foods and raw materials have always been the favourite products of general trading companies, as was the case with the pre-war Mitsui, which relied heavily on soya beans. But the end of the last war saw increasingly stringent controls by the governments of the producing countries over these important food items, eliminating the basis on which high profits could be obtained through the use of financial power. The political and economic instability of many Latin American countries was also a factor, and the firm made major advances into that region. Domestic business seems to have been given strategic importance in the 1970s, with warehousing and machine dealing registering high growth, but even in the early 1980s, approximately half of the total sales was derived from import/export business, all of it with the three countries of Switzerland, Mexico, and Brazil.[32]

W. R. Grace & Co. may be seen as an interesting example of a firm that diversified its trading activities. It originated as Bryce & Co., an English company in Peru that W. C. Grace joined in 1859. Bryce, Grace & Co. was then formed, engaged in trading with the United States by means of Grace's founding a firm under his own name in New York in the mid-1860s. It exported manufactured goods and lumber to Peru, and the triangular trade between Peru, Europe, and the United States set the pattern for the Grace commercial business for years to come.[33] In liquidation of the partnership with Bryce, W. R. Grace then founded Grace Brothers & Co. of Peru in 1876, with a number of branches in the United States, Britain and in the South American countries. In Peru, the company engaged actively in the nitrate trade, providing that substance to E. I. Du Pont de Nemours & Co. while importing a handful of commodities, including lard and kerosene. It is clear that Grace intended his firm to be a general merchant house; he wrote: "If there is any safe business to be had out of it, there is every possibility of our doing it."[34] In fact, with the coming of the Pacific war, it launched arms and munitions trades with Peru in secret. After Peru's defeat, its business territories necessarily expanded further, largely in company with shipping and the selling of nitrogeneous fertilizers.

In the depressed years of the 1880s, Grace put his hand to the management of cotton-spinning and sugar-refining in Peru. He also entered the woolen manufacturing business. Further opportunities in Chile and Colombia were discovered in a variety of industrial fields, including the production of vegetable oil and paper. At the end of the Second World War, the company's gross fixed assets were about $62 million, with approximately $29 million in South America and the remainder in the United States. In the former, the major businesses were integrated sugar production in Peru and seven cotton mills in Peru, Chile, and Colombia. By the 1950s, its assets had grown to $167 million, of which two-thirds was invested in domestic companies, especially in the chemical industry. However, as soon as W. R. Grace & Co. was converted into a public company in 1950, its strategy changed remarkably. In addition to the creation of Grace Chemical Co., three other chemical companies, Davidson's, Thurston's, and Deway's, were acquired by the group, in 1953–1954. This resulted from "studies directed toward investment opportunities in profitable growth industries."[35] The metamorphosis of the company was rapid; when J. P. Grace, the president of the company from 1945, looked back in 1971, he said: "We have totally changed our emphasis."[36] After World War II, Grace's earnings came entirely from steamship operations and Latin American investments. Shipping started to decline in the mid-fifties, and Latin America became a problem area in the sixties.

The histories of several Western trading companies have been traced. A. Gibbs & Co. was once similar to a Japanese general trading company in its business activities, but, in recent times, its trading business has tended to be reduced. W. R. Grace turned into a conglomerate.

Anderson Clayton, another American company, is still far from being a fully-fledged general trading company. Three British colonial companies are on the way, but there is a possibility of their outgrowing the activities of trading companies as they diversify into fields of business other than trade and services. Inchcape is the nearest thing in the West to a Japanese general trading company. It should be emphasized, however, that much of their diversification took place in the years following World War II. This is also applicable to the majority of Japanese trading companies. An important but so far unexamined reason for these British firms' strategy of diversification was nationalism in the post-war host country. In fact, the majority of Guthrie's stock was bought by the Malaysian government in 1981.[37] Except for Guthrie & Co., all of these Western firms were converted to public companies only in the post-war period, which made it possible for them to raise enough capital to buy out other companies for their diversification. Attention should be paid, however, to the fact that a man of business talent was always recruited to a managerial post in these companies about the time of their conversion to private companies. It was these professional managers that developed their businesses so remarkably, as I have described. Such companies as Inchcape and Jardine, Matheson are still under the influence of some family members. This however, is due not to the percentage of the stocks that they hold but to their managerial capability.

Some Factors Favourable to the Growth of General Trading Companies in Japan

The purpose of this section is not to outline the history of general trading companies in Japan, but to concentrate on some internal problems that they had to face and solve on the road to becoming general trading companies. Mitsui Bussan had an important effect on companies that followed it, as it was taken as a model. Attention, therefore, is paid to the reasons why Mitsui Bussan could grow into such a typical general trading company as it did even in the pre-war years. I would like to emphasize first the initial object of its foundation; secondly, the extraordinary human resources that it could recruit; and thirdly, the organization that it took care to build.

In England there were specialized merchants (companies) who dealt with various non-English-speaking European countries, even prior to the birth of 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, an isolation from the outer world that extended over 200 years. That isolation made foreign trade something very exclusive for a limited number of élite merchants. 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 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 extraterritorial settlements and had deep knowledge of the current Western economy.[38] Even well after the Meiji Restoration in 1868, the conditions were 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 the establishing of direct trade and the shattering of the Western merchants' monopoly of market information as a matter of serious interest.

It was in this kind of business environment that Mitsui Bussan came into being. A perusal of its history, particularly during the Meiji 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 (Tokyo) office also ventured into raw silk export. In addition, Mitsui's affiliated Mitsukoshi stores (especially its Yokohama branch) at one time were heavily involved in the sales of silkworm eggs, paper, and tea.

In early Meiji, leading merchants in Tokyo established the Tokyo Boeki Shosha (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 egoistic and they tactfully insist on various difficult propositions."[39] 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 offices that dealt with domestic products at various places (in 1874) that were aimed at the pursuit of cash payment for land taxes as well as exchange transactions and the sales and transportation of rice. One 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, Senshu Gaisha, one of the parent bodies of Mitsui Bussan, was far more successful. Senshu Gaisha originated with Okada & Co., which was established at the beginning of 1874. An American trading firm called Edwin Fisher & Co. joined Okada & Co.[40] Owing to the participation of this trading firm, rice was exported to London. Although it seemed as if the business would expand smoothly, the operations came to a standstill due to the sudden death of Okada Heizo, who was the key figure. At the time, Inoue Kaoru, president of Okada & Co., reorganized it into Senshu Gaisha. 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 type of business that had been pursued by Okada & Co. was hardly changed, and Fisher & Co. also invested in the newly reorganized company. Moreover, around this time, Masuda Takashi, who had worked for Walsh Hall & 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 & Co. In 1875, because the company repaid the capital invested by Fisher & Co., the historic joint-capital trading company between these two countries thus was dissolved. However, Fisher & Co. remained a good company to deal with. In particular, R. W. Irwin, who was another partner of the London branch office, and Masuda became very good friends. Later, upon the establishment of Mitsui Bussan, Irwin was appointed adviser and contributed greatly to the groundwork needed for Mitsui's London office.

Although the future of Senshu Gaisha 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 Minomura Rizaemon and to inaugurate a trading company whose primary aim was overseas transactions. Thus, Mitsui Bussan was established.

The history of Mitsui's predecessor has been given in detail here because it is considered to contain the key to the success of Mitsui Bussan. I would like to point out that Mitsui's predecessor had some experience with foreign transactions as well as an accumulation of know-how, and that Mitsui's success in trade rested particularly on a tie-up with a foreign trading firm.[41] The situation was very much like that of industrial enterprises, where the technology transfer was carried out by engineers who had been employed from foreign countries. Between 1876 and 1890, Mitsui Bussan was a *shimei-gaisha*, and during this period many overseas branches or offices were established. The process toward diversification, which derived from the most efficient utilization of these overseas bases, advanced rapidly during the next period, in which Mitsui acted as a *gomei-gaisha* with a corporate identity. The diversification process, however, should not be attributed to the change in business strategies. As shown above, the company's premise from the outset 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 the Paris, Milan, and New York offices that 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 operations. This continuation was made possible as a result of the human relationship nurtured during the period of its antecedent, Senshu Gaisha, which shows the significance of trustworthy human relationships in trade business dealings. Another feature required of managers in the trading business is an understanding of the business 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 of managerial human resources, we should study the organizational forms of the enterprise, particularly in its earlier stage. There are two major questions that must be answered in the examination of the general trading company's development; one is the organizational form that the enterprise should take, and the other concerns the separation of management from ownership. At the time of the inauguration of Mitsui Bussan, it was a "private association" without any capital, and the business was started with a loan of only 50,000 yen. This was a reflection of Masuda Takashi's opinion that Mitsui Bussan did not need any capital because of its engagement in the commission business. He considered that a loan of 50,000 yen from Mitsui Bank would suffice for working funds. At the same time, additional capital was "not handed to the said company in order for both parties to avoid any losses in the future." Consequently, Mitsui Bussan at its outset was not in a financially comfortable state. Nevertheless, the company's fundamental constitution was formed during this period when it worked with a loan, and, because the company held fast to being non-capital, it could pursue venturesome business strategies without being restricted by the Mitsui family.[42] Mitsui Bussan's liberal and open-minded tradition was formulated during this period.

Regarding the use of professional managers in Mitsui Bussan, despite its being a non-public company, one of the cardinal contrasts between enterprise management in Japan and that in the West is that in Japan the existence of managers separate from owners had been established since before the modern period. Traditionally, Japanese business was operated by managers chosen from among 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 happened most often around the time junior partners (actual managers) took a leading role in the management of a company.

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 share of the profits – even though they were not investors – so that their loyalty to owners could be enhanced.

How was it possible for Mitsui (which had as many as 1,000 employees as early as the end of the Tokugawa period) to separate management from ownership? The following theory is persuasive. First of all, a family business is passed down through the generations. There is no room for loyalty from employees to the employer to take root in a business 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. In addition, 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 branch family, should they work hard and serve the employer. To put it differently, dedication to the owner family brought about a "pseudo-family consciousness" in the entire family business.[43]

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 a family business was a thorny path full of difficulties.

Getting back to the Meiji period, the emergence of a great number of salaried professional managers in Mitsui Bussan at that time 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, trade technology, like scientific technology, was beyond the reach of traditional merchants. Those like Masuda who were fortunate enough to acquire the technology through apprenticeship were exceptions. For this reason, many trading companies which emerged before Mitsui Bussan disappeared without achieving their ambitions. Even in the case of Mitsui, there was no one proficient in foreign correspondence at the outset, and Irwin took care of it completely.[44]

The promotion of trade through direct transaction 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 (Shoho Koshujo), which had been established in 1875 with the co-operation of Mori Arinori and Shibusawa Eiichi, was placed under the jurisdiction of Tokyo Prefecture in the following year. Incidentally, it is interesting to find Masuda Takashi's name in 1879 as a member of the school committee to establish school rules.[45] Masuda happened to be the brother-in-law of Yano Jiro, director of the training school. The educational objective of the Tokyo Commercial School, which succeeded the training school, was to master new knowledge pertaining to trade practices and trade finances. Even after the change from the training school to the government-run Tokyo Commercial School in 1884, Masuda maintained close ties with the school as a member of the School Affairs Consultation Committee.[46]

At that time, Masuda, who was the president of Mitsui Bussan, was paying keen attention to the graduates of the training school.

It was stated above that Mitsui Bussan's employees already had accumulated know-how regarding the trading business during the period of "*shimei-gaisha.*" 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 Bussan regularly. Incidentally, when Yamabe Takeo, director of Osaka Spinning, visited London for the second time in 1887, the chief of Mitsui's London office was Watanabe Senjiro, who left the training school in 1877 and became the first person from the school to enter Mitsui Bussan. In 1881, when Mitsui began taking on graduates of the school regularly, the number of employees increased to 110 from 16 at the time of its establishment.[47] 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 a *gomei gaisha* (unlimited partnership), about 75 per cent of the overseas offices were staffed by the school's graduates. At the newly established Bombay office, Yasukawa Yunosuke, a graduate of the Osaka Commercial School who later became president, was the one and only Mitsui man. Mitsui actualized the diversification process to become a general trading company approximately during this period.[48] As is quite clear, its purpose from the outset was to succeed in the trading business on a world-wide scale.

At the beginning of the twentieth century, as many as 55 employees were graduates of the Tokyo Higher Commercial School, of whom more than 19 were working at overseas branch offices in London, Shanghai, Hong Kong, Singapore, San Francisco, Taipei, and Tientsin. In 1908, Mitsui Bussan was converted to a company with limited liability. From this time onward, 10 to 20 graduates entered Mitsui Bussan every year, and thus the school was truly a training school for Mitsui employees.[49] Subsequently, from the latter part of the 1890s, when Mitsui Bussan 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 graduates were to the diversification of a trading company. Let us take the Iwai Company (now Nissho-Iwai) as an example of one of the few trading companies that already had the potential to become diversified prior to World War I. This company showed rapid growth from about 1902, and its import section consisted of commercial-school graduates.[50] It is recorded that the company hired 20-odd new graduates as employees around this time, although there must have been some who resigned within several years because the number of graduates at the start of World War I was recorded at only 28.[51]

On the other hand, Nihon Menka Kaisha (now Nichimen), which started off as a cotton import company, was even more passive in hiring commercial-school graduates. It is recorded that Kita Matazo, who graduated from the Osaka Commercial School, entered the 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.[52] He became a manager in 1903, and he thought that it would be possible to attain his ideal to make the company "a great trading company predominating over the Kansai region" (the area centring around Osaka).[53] The fact that a small number of his juniors who graduated from the same school were constantly hired during the decade following his inauguration indicates 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 the export of cotton cloth. Therefore, it is difficult to say that the company actually took a step toward diversification before World War I. This ultimately implies that it was not easy for the company to break away from the antiquated constitution that had been initiated by the cotton merchants at the time of its founding.

The management of C. Itoh, which also began as a cotton yarn and textile business, was more conservative. The second generation leader, Itoh Chubei, was not able to fulfil his earnest desire to enter Tokyo Higher Commercial School due to a family request that he commit himself fully 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?"[54] Although commercial-school (middle-school level) graduates could be found among the staff after 1893, Inoue Tomizo was the first graduate of a higher commercial school to enter the company (in 1908). Thus, the number of commercial-school graduate employees at the outset of World War I was insignificant.[55] Although the company rapidly expanded its business during the war, it had to abandon its newly started foreign trading division due to the grave damage inflicted by speculation in cotton cloth in the years following the war.

Furukawa Unlimited Partnership (with 101 commercial-school graduate employees at the time) established Furukawa Shoji during the war and ventured into trading. The company went bankrupt due to a failure in soya bean speculation; an internal audit system which would have detected the soya bean speculation by the inexperienced Dairen office had not yet been established.[56]

When the distribution of commercial-school graduates in business in Japan immediately before World War I is examined, one of the most distinctive characteristics is that many graduates were found in such fields as trading companies and spinning companies, which would be inconceivable in various advanced countries.[57] The distribution according to enterprises reveals that Mitsui Bussan, with 731 school graduates, had the largest number in Japan. Apart from Mitsui, among the top 100 companies that had at least 20 school graduates were Okura and the aforementioned Iwai. Takada & Co. was ranked between the tenth and twentieth, with 151 graduate employees, and Suzuki & Co. ranked between thirtieth and fortieth, with 72.[58]

Of these, Takada & Co. and Suzuki & Co. went bankrupt in 1925 and 1927, respectively.[59] The 1920s were the so-called period of suffering for trading companies.[60] This was due to World War I, which created favourable opportunities for trading companies to venture into speculation. In such a situation, speculation was considered more the proper role of trading companies than their normal role as commission merchants. They were then hit by the post-war recession. I have already pointed out that because there is a tendency for the profits of trading companies obtained as a result of being commission merchants to diminish constantly because of competition, there exists a perpetual incitement to be involved in speculative buying and selling. Amidst the recession from 1910 onwards, when 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 business stagnation. This was a pitfall.

It is generally acknowledged that Suzuki & Co. began to become diversified around 1910. However, one can find marked differences with regard to the overseas business environment and managerial resources of this company compared with those of Mitsui in the 1890s, when the latter advanced into diversification. First of all, as far as the economic environment was concerned, the international economy had become far more complex in the intervening 10 or so years. In addition, the leading enterprises centring around Mitsui were beginning to establish their dominance due to their head start.

It should be emphasized here that unlike industrial enterprises, distribution enterprises have no advantages as latecomers. The only way for late-starting enterprises to operate is to encroach upon the distribution networks established by forerunners or to try to become established in fields that have not yet been touched. The business which led Suzuki & Co. to grow to the extent of realizing vast profits was either extremely speculative sales activities centring around primary products or 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 diversification on the basis of this office resulted in failure. Thereafter, the operations in London, Hamburg, and New York were dependent upon agencies.[61] In other words, the overseas operations were reliant on foreign merchants to an extremely high degree.

In 1909, Suzuki & Co. consciously decided to become a general trading company, which can be seen in the founding of Nihon Shogyo, a subsidiary. Since there were scarcely any commercial-school graduates employed by the company, it was hardly possible that its overseas business could have succeeded.

From 1909 on, however, Suzuki & Co. began taking on several graduates every year.[62] Some graduate employees resigned from the company in the beginning due to agonizing treatment by senior clerks. However, since the company already had 57 commercial-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.

The overall size of the staff at Suzuki & Co. during this period is not available. But it can be safely assumed that it had a far lower percentage of commercial-school graduates in its staff than, say, Mitsui Bussan, where nearly half of the staff were university graduates or the equivalent.

More importantly, Suzuki & Co. seems to have lacked a company rule centring on the commission business; they should have had an empirical iron-bound 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 judgment 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.

Since the birth of Mitsui Bussan, "one of the principles of foreign trade since the days of its founding was to pursue sales operations on a commission basis." Any speculative transaction required the approval of headquarters. During the period of *gomei-gaisha*, when the company finalized its strategies to develop primarily on the basis of foreign trade, this point was again strongly reaffirmed.[63] When the post-war 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.[64] When the cotton section was made independent in 1920 as Toyo Menka (now Tomen), that must have been done in order to avoid any risks deriving from trade in cotton, a commodity that inevitably entails a certain amount of speculative transactions.[65]

On the other hand, Suzuki & 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 specialty graduates, and they had to rely on their few years' experience from the time of graduation. Kaneko Naokichi himself plunged into great speculation as the war broke out; it would be strange if his subordinates did not follow suit. The company had few strict organizational rules to speak of, nor did it have any foreign business manual. Since everyone acted 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."[66]

This was a problem of Kaneko's own making: his promoting speculation among his employees was deeply connected to his own viewpoint regarding business profits. Also, there was an organizational weakness that derived from rapid expansion. In a period of several years during the war, an additional large number of commercial-school graduates, nearly 100, was employed, and in 1919 over 100 graduates from the 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 the company into speculation.[67]

Thus, the content of overseas business carried out by Suzuki & Co. in the period when this company was competing against Mitsui was actually different from 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, both graduates from Kobe, became aware of the danger and endeavoured to put an end to it, it was Kaneko himself who rejected their efforts. 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.[68] After the death of Nishikawa Bunzo in 1920, who had left the Tokyo Higher Commercial School in mid-course and had been Kaneko's right-hand man, there was no employee with a degree who could advise the 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 20 years between Kaneko and the commercial-school graduate cadre. It was not only organization that was lacking; there was also a lack of manpower. The truth of the hard-and-fast rule that a trading company is made by its personnel was made vividly apparent again in this case.[69] I may exaggerate the strategic role of higher-school graduates as human resources, but what I intend to imply is that in those days foreign trade was something that was accessible only to educated people.

The above discussion clarifies why Mitsui Bussan succeeded in diversifying its trading business while other trading companies suffered a setback.

Concluding Remarks

The uniqueness of this book lies not in analysing functions of current general trading companies but in tracing their historical development up to the present in a comparative perspective. Without summarizing individual chapters here (see the Introduction for the flow of the overall argument), let me now pick up some salient points presented in the book and also supplement them in a brief manner.

First of all, the possibility of becoming a general trading company exists not only in Japan but also in the West. Development toward diversified and general trading companies is a built-in tendency inherent in the wholesale distribution industry. To actualize it, however, favourable economic circumstances and internal reforms of the firms themselves are essential. For trading companies, economic circumstances encompasses such areas as the initial condition of industrialization, the importance of foreign trade, and the integration of industrial companies. Among internal reforms, human resources and organizational set-up are of importance. In pre-war Western countries, neither economic conditions nor internal reforms were favourable to the growth of general trading companies, but the situation seems to have improved for some British merchant houses in the post-war period.

Secondly, general trading companies enjoyed their heyday only after the end of World War II. Many trading companies intended to diversify to general trading companies in pre-war Japan with the result that only a few succeeded. This means that trading companies, mainly textile traders of the pre-war days, had not matured sufficiently to adopt the form of full-fledged managerial enterprise until the post-war days. They now characteristically function, along with major city banks, as the nuclei of various enterprise groups. They now make full use of their global information-gathering as well as fund-raising capacities, and are able to serve as the organizers and financiers of their enterprise groups to the fullest extent. Japanese general trading companies are similar to international trading companies of British birth in the sense that they have a multitude of subsidiaries that they finance, invest in, and organize. They differ, however, from Western trading companies in that they also constitute the nuclei of larger enterprise groups.

Thirdly, attention should be paid to the connection between the trading and accessory businesses. The early history of Mitsui Bussan clarifies that such side businesses as financing and shipping, which they managed so well, were possible only on the basis of their trading activities. Missing this point, one might miss an essential aspect of general trading companies. It is also true, however, that the connection blurred in due time. In some cases, a new company was formed as a constituent of the enterprise group. But when accessory businesses need both the sophisticated organization that general trading companies have built and human capital that they have amassed, more and more, they tend to diversify to other service businesses. This is applicable to the post-war general trading companies.

Fourthly, the fact that general trading companies in Japan have survived up to the present time implies that their trading services have been as efficient as fully integrated firms could have been in their trading functions. This efficiency was effected as a result of the fact that they could function well as a constituent of a large business group. Opinions on whether or not general trading companies can survive in the future differ among businessmen as well as scholars. The fact remains, at any rate, that they were able to tide themselves over many difficult times in the past.

Lastly, I might venture to say that these studies indicate that there is a possibility for today's developing countries to successfully encourage the growth of general trading companies. The tendency of industrial enterprises to vertically integrate as they grow in size should not be slighted in many developing countries, but the establishment of a wholesale trader as the nucleus of the business group will probably be able to outflank the former. This has come true in the Korean economy. Their growth, however would require various kinds of government support for the prospective general trading companies. Among Japanese trading companies, by far the most important in the historical context is Mitsui Bussan, in whose formation government support played a large role. It must be reiterated that to put too much emphasis on the uniqueness of Japanese trading companies is liable to cause a misunderstanding of the way in which Japan's general trading companies developed.