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**OWNERSHIP AND MANAGEMENT OF FAMILY  
BUSINESSES: AN INTERNATIONAL  
COMPARISON**

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

## I. PRINCIPLES FOR COMPARISON OF FAMILY CORPORATIONS

It has become obvious that the need to understand foreign cultures has increased greatly because of tightly knit international relations and increased contacts with foreigners. With regard to corporate management, constant reference must be made to foreign businesses. Moreover, should branch offices or corporations be established in foreign countries, there must be a deep understanding of the cultural and social practices of those countries.

As a result of the enhanced position of the Japanese economy in the world economy, the management skills of various corporations supporting the Japanese economy receive much attention, and discussions concerning Japanese management are actively pursued. The following topics are often discussed: the relationship between the government and business, uniqueness in the process of decision making in business, and the characteristics of personnel and labour management (such as the so-called seniority ranking, lifetime employment, familial unity and loyalty to the company, and so forth).

Despite the vigorous discussions on various topics considered to be Japanese characteristics, in a number of cases it does not seem that a comparison between foreign and Japanese businesses using explicit and effective criteria has been pursued. In other words, it appears that in many cases the characteristics are emphasized subjectively and the basis of comparison is unclear.<sup>1</sup>

This paper, therefore, seeks to establish the basis of comparison regarding the ownership and management of family corporations and compare Japanese family corporations with those in various foreign

countries. I would like to suggest the possibility of an international comparison of family corporations.<sup>2</sup> It should be remembered that the comparative method suggested here utilizes only one or two of many criteria. Moreover, as the study advances, it will become necessary to ascertain the degree to which the method suggested here is significant.

## II. COMPARISON OF CAPITAL OWNERSHIP

The concepts of ownership used in this paper are: collective ownership, joint ownership, co-ownership, and individual ownership. The first three types are varied forms of part ownership.<sup>3</sup>

Collective ownership (Gesamteigentum, or propriété collective) is the pattern of ownership that existed in the Germanic village community. Villagers of a Germanic village community constituted one unified collective entity without losing their individual status, and it is said that the entity denoted a substantive collective person (Genossenschaft). Consequently, the management powers over the possessions of the village group belonged to the village itself, and such powers were regulated by the social norms that also governed the village community. The power over avails alone belonged to the individual inhabitant of the village. The right of the co-owners in collective ownership is merely the right to the avails, and thus it is not an ownership right in accordance with modern law. The power over avails held by the villager is not an independent property right separate from qualification as a village resident. Collective ownership is the type of co-ownership which has the most collectivistic characteristic. The right of common in Japan also shares the same characteristic.

Co-ownership (Miteigentum [nach Bruchteilen], or copropriété) is the form of joint ownership stipulated in Roman law. A co-owner, under certain restrictions, possesses an ownership right (the purparty right) which is a combination of the powers of management and the right to the avails; he can dispose of the right at his will (freedom of disposing purparty). Moreover, he has the right to become an independent owner.

(freedom to request allotment) whenever he wishes to terminate co-ownership. The collectivistic union among the parties involved in co-ownership is extremely weak.

Joint ownership (collectivistic co-ownership: Eigentum zur gesamten Hand) falls between collective ownership and co-ownership, but it is slightly closer to co-ownership. Joint owners possess the powers of management and right to the avails. In other words, they possess the purparty right. However, since a common purpose exists to manage an enterprise among the parties involved, and because joint ownership is a means to achieve this, the powers of management held by each joint owner are restricted by the rules established to achieve it. Therefore, each joint owner has neither the freedom to dispose of his purparty right nor the right to request allotment as long as the common purpose is attained. Therefore, as long as the common purpose is attained, the purparty right becomes a so-called latent right and it becomes an actual right for the first time when the common purpose is terminated. The German Civil Code stipulated that union property (Article 71 ff.), acquets of baron et femme (Article 1437 ff.), and jointly inherited property (Article 203 ff.) fall into the category of joint ownership.

Individual ownership is the real right whereby an individual controls the purpose generally and totally. In other words, an owner can freely dispose of his possessions without being restricted by a group or other individuals.

The reason various forms of ownership have been discussed shall be explained briefly here. My interest in family corporations developed from research done regarding the form of capital ownership by big merchants in Japan in recent times as well as the form of capital ownership extant among the zaibatsu after the enforcement of the Civil Code and the Commercial Code (1893-1898). In both cases, the business capital is owned either by the successor to the head of a merchant family or by the zaibatsu family members. However, I discovered that the ownership right possessed by the titular holder of business property was so strongly restricted by the family group that the

ownership right did not belong to the titular holder.<sup>4</sup> After the enforcement of the Civil Code, the nature of this ownership legally took the form of a right to invest in a limited partnership and an unlimited partnership. However, it appears that zaibatsu ownership differed from the aforementioned co-ownership, and that it actually falls in between collective ownership and joint ownership. Although the powers granted to each investor over an investment differed somewhat according to individual merchant families and zaibatsu families, the ownership right up to the mid-1940s was not a modern individualistic ownership right.<sup>5</sup>

It is definite that certain characteristics were inherited from the business capital of big merchants by modern zaibatsu capital. Although the big merchant families in recent times will be referred to whenever necessary, this paper will primarily examine the characteristics of zaibatsu capital from about the period of the enforcement of the Commercial Code (1893) and the Civil Code (1898). It is presumed that the corporate management was greatly influenced by the fact that investments by zaibatsu investors were regarded as collectively or jointly owned by the family.

A general tendency often seen in Japan went as follows: a founder started a business with little capital, accumulated a fortune rapidly and extended the business size due to creative ingenuity and hard work, trained competent employees in the interim, and, when the business was inherited by a child or a grandchild of the founder, these competent employees (hired executives [banto] or specialized managers)<sup>6</sup> took charge of management. Thus, the owner reigned but did not rule.

Consequently, the descendants of the founder were not required to be active partners irrespective of whether there was one holder of ownership or ten holders divided among brothers and sisters. It was more desirable for an owner to preserve the status quo than to sell or transfer his right over an investment to others.

The following conditions were requested of these owners:

1. To retain one's own investment share and to maintain one's own family on the proceeds from the investment.
2. To avoid a situation such as starting a business alone, which may result in failure and the incurring of large debts, so that an owner would not be faced with the necessity of having to draw out his investment share. Moreover, an owner must not become a guarantor for someone else's debt. In other words, owners are not allowed to become a modern economic person with doli capax.
3. Should an owner wish to be engaged in business, he is to hold a certain status in his own corporate management which is, in reality, managed by his hired executives or salaried managers without interfering with the business operation. In other words, he is to become a president, executive, or an auditor in an honorary capacity. In this case, since an owner is remunerated for this occupational duty in addition to the aforementioned proceeds, it was common for many of the family corporation owners to wish to secure such a status.
4. Because of the above status in corporate management, ordinary members of a family corporation are urged to live as so-called intellectuals and connoisseurs of art. This produced superior people in various fields, as in the case of the Mitsui family. Among the members of the second generation, only Koyata Iwasaki (the eldest son of Yanosuke Iwasaki) exhibited competence as a corporate manager. Yanosuke Iwasaki, a younger brother of founder Yataro Iwasaki, should be regarded as a partner of Yataro Iwasaki.

The various conditions mentioned could not transform the ownership right held by the zaibatsu members into an individual ownership right, which would easily allow one to make a request for an allotment.

Rather, it was desirable to have joint ownership, which made making an allotment request harder, and a collective ownership, which made making an allotment request even harder. Therefore, almost all the zaibatsu families determined the share to be held by the members when the business reached a certain stage; moreover, they established regulations that prohibited the disposal of shares at an individual's discretion.

Incidentally, collective ownership of forest land and joint ownership

stipulated in the German Civil Code (1896) were not recognized in the Meiji Civil Code (promulgated in 1896 and enforced in 1898).<sup>7</sup> The Meiji Civil Code only recognized co-ownership which stipulated that upon an allotment request an allotment had to be made within five years. (There is a theory, however, that union property classified as co-ownership by the Civil Code and inherited property by plural heirs are joint ownership.<sup>8</sup>) As a result, big merchant families and zaibatsu families had to impose various forms of restriction upon the behaviour of investors. These restrictions are manifested in the code of each family.

#### A. Japanese Cases

##### 1. Mitsui Family Code (1900)<sup>9</sup>

The Mitsui family possessed family properties held by eleven families and business assets which were jointly managed by the eleven families; the following was stipulated with regard to business assets:

Article 92. Irrespective of the investment amount, the purparty over the family assets other than the individual family properties shall be based upon the following proportion:

Head family	23/100
Main family	11.5/100
Collateral family	3.9/100

Should there be a member of the family who retires or is expelled from each of the business offices and causes a decrease in the purparty held by each member of the family due to unavoidable reasons, the proportion of purparty mentioned in the foregoing paragraph shall naturally be changed in accordance with the situation.

Despite the fact that business assets were formally co-owned, in actuality it can be considered that they were collectively owned, since none of the members of the eleven families was able to retire the purparty entitled to his family at his will. Although Sōchiku Isho [The bestowal of the principal bamboo] (the predecessor of the Mitsui family code) of the Edo period stipulated the allotment rules of business offices and the purparty in the Mitsui family code, the

ownership was de facto collective because allotment was never pursued. With regard to the behaviour of the family members, the following was stated:

Article 12. The family shall be prohibited from engaging in the following:

1. to join any political party or to be involved in any politics publicly
2. to create debts
3. to become a guarantor of others' debts.

The necessary rules for the enforcement of this article shall be established separately.

Article 13. The family shall be prohibited from engaging in the following without the approval of the family council:

1. to operate a commerce and industry privately
2. to become a shareholder of a company or a financier of commerce and industry privately
3. to become an executive or an employee of a company or a union other than that of each of the Mitsui business offices
4. to be engaged in government or public office
5. to be engaged in any other item which stipulates that it should receive the permission of the family council.

As seen above, no member of the Mitsui family was allowed to engage in political or economic activities which make a self-sufficient modern man.

## 2. Kōnoike Family Code (1889)<sup>10</sup>

Article 12. All the family assets are made to be managed by the elders of employees, and no family head should gain control over them.

Article 13. A sum of money representing the family head's personal expenses should be determined and paid every month.

Article 14. Such expenses as the construction and repair of houses and gardens which entail family funds should be discussed by the elders of employees, and a family head must not undertake these at his will when approval is not granted by the elders.

Article 15. When a descendant wishes to establish a branch family, his proportion must be dealt with in accordance with the rules of apportionment established by Master Sōsei in the Kyōho era.

As seen above, a family head was not given the power to dispose of his

property, and the establishment of a branch family by the descendants had to be done in accordance with the rules of January 1723 (Kyōho 8). Sōsei (another name for the third-generation Zenemon Munetoshi) is noted for his competent headship, for he brought prosperity to the Kōnoike family. The inheritance rules established in the Kyōho era by him survived for another 150 years and perpetuated even after 1889.<sup>10</sup> According to the above articles, it should be considered that the family assets did not belong to a family head who held the ownership right, but belonged to all the family members who abided by the family code.

### 3. Sumitomo Family

Although many family precepts and shop rules are also left by the Sumitomo family, no inheritance rule stipulating the continuity of the family is publicized. In this regard, the Sumitomo family rules lacking the inheritance rule were anomalous, and I have presented a tentative argument on the basis of the Sumitomo family precepts and shop rules deciphered thus far.<sup>11</sup>

#### Sumitomo Family Code (1891)<sup>12</sup>

Article 7. Upon consulting with the general director and directors, the family head should accumulate some capital and personnel other than business capital and establish a means of custody so that he can be prepared to solidify the way of the family.

Article 11. Even matters occurring within an individual family should be dealt with, if they are serious matters, by consulting with the general director and directors.

Article 14. The family head must not dare to increase, decrease, or alter the articles in the family code and the family rules without obtaining a consensus from the general director and other directors.

As seen above, as long as the approval of the general director and other directors was required, it is definite that the family assets and domestic affairs could not be "generally and totally controlled" by the family head.

4. Code of the Yasuda Family Corporation (1887)<sup>13</sup>

Article 35. The clique [a clan of ten Yasuda families] members are strictly prohibited from becoming guarantors of monetary debts and various deeds of contract upon requests made by their kith and kin, let alone from non-family members; neither can they sign a paper of personal guarantee vouching for an employee. However, should the above be necessary within a legal framework, the matter must be discussed mutually by the clique. Moreover, only when a signature is required for business pertaining to the Yasuda Bank is a member permitted to sign upon receiving a permit from the general director.

Article 41. The present assets of one million yen held by the Yasuda family are totally rendered in order to fix the capital of the Yasuda Bank at one million yen, which is to be in the divided custody as follows:

Name	Number of shares	Amount
In the name of the Family Corporation, General Director	5,000	¥500,000
The same family, Zenjiro Yasuda	700	¥ 70,000
The same family, Zenshiro Yasuda	700	¥ 70,000
The same family, Zennosuke Yasuda	700	¥ 70,000
The same family, Shinnosuke Yasuda	500	¥ 50,000
The same family, Saburohiko Yasuda	500	¥ 50,000
The same family, Chūbei Yasuda	500	¥ 50,000
Branch family, Fumiko Yasuda	400	¥ 40,000
Branch family, Zensuke Yasuda	400	¥ 40,000
Related family, Yagoro Ōta	300	¥ 30,000
Related family, Sodeko Fujita	300	¥ 30,000

Article 42. It is prohibited to pawn, transfer and sell, etc., these Yasuda Bank shares to outsiders other than to clique members. Therefore, without the issuance of share certificates, a share account book should be created. Upon inscribing the number of shares held by each member in this book, the signatures and seals of the managing director and the auditor of the Yasuda Bank must be affixed, and the book must be kept in the safe of the main office.

Article 42. The sum of 500,000 yen in the form of family corporation shares must be kept in custody by the six households of the same family as a deposit bestowed upon them by the ancestor who brought prosperity to the family. Thus, it must never be partitioned under any circumstances. Nevertheless, the representative must be set in the name of the general director to the clique members, and the certificate must be kept in the executive office of the Yasuda Bank.

Article 64. The clique members are prohibited from managing business independently. If a member violates this rule and manages a business in secrecy which subsequently incurs debts due to business failure or some accident and becomes bankrupt, none of the relatives must render any help.

On the basis of the above excerpt, it can be seen that the Yasuda family code is very similar to that of the Mitsui family. Thus, among the investors of the Mitsui Bank from 1876 to 1893, an organ that was in charge of the custody of the jointly owned Mitsui family property called Ōmotokata ["the great main financier"] invested one million yen (later 500,000 yen). In like manner, the investment of 500,000 yen in the name of the general director of Hozensha family corporation appears to be of the same nature.

In view of articles 42 and 43, it is evident that the clan of ten families did not have the disposal right regarding property (shares) held in divided custody. Articles 35 and 64 reveal that the family heads of the clan of ten families were not recognized as self-sufficient individual economic persons because of the numerous restrictions placed upon them. The 500,000 yen of the shares in the name of Hozensha family corporation that had to be kept by the six households of the family as "a deposit bestowed by the ancestor [Zenjiro Yasuda] who brought prosperity to the family" reveals that this property was collectively owned by the clan.

#### 5. Iwasaki Family

Upon the death of Yatarō Iwasaki, the founder of Mitsubishi Trading Company and Mitsubishi Mailing and Shipping Company, in February 1885, his younger brother, Yanosuke Iwasaki, succeeded to the president's post. Yanosuke branched off from the head family of Yatarō's eldest son, Hisaya, in 1891. It is said that the property given to Yanosuke at the time of establishing his branch family did not even come up to a quarter of the wealth owned by the head family.<sup>14</sup> Because Yanosuke's effort after the death of Yatarō was so instrumental in the maintenance of Mitsubishi wealth, it is presumed that the status of Yanosuke's branch family vis-à-vis the head family was considerably higher than that of ordinary branch families. Consequently, when Mitsubishi Gōshi Kaisha (a limited partnership) was established in December 1893 with a capital of 5 million yen, the amount invested by Hisaya and Yanosuke was an equal amount of 2.5 million yen each. The investment amount by

both families fluctuated later and the ratio of investment changed. This fact is interpreted to mean that the investment by both Iwasaki families was not collectively owned, but co-owned with possibilities of partition. However, the pattern of ownership inside the respective families is unknown. Although it was stipulated that the partners of this company should be the heads of both families or their heirs, Yanosuke's eldest son, Koyata, was added on as an investing partner in February 1907 and the capital of the company became 15 million yen. A breakdown of the investment was as follows: Hisaya - 12.5 million yen; Yanosuke - 1.5 million yen; Koyata - 1 million yen. The investment ratio between Yatoro's line and Yanosuke's line was five to one. As seen above, although the restriction upon investors was somewhat lenient in Mitsubishi Goshi Kaisha, the "Company Contract"<sup>15</sup> revised in 1907 stipulated the following:

Article 16. A partner cannot voluntarily resign from this company while it is in existence. Should a partner die, the heir to the family headship is to succeed to the position. A partner shall never resign from the company because of lack of competence.

The competence of investing partners was thus not questioned, indicating that they became investors as the representatives of each family. In addition, it seems to suggest that the investment did not belong to individual employees. In other words, incompetent partners were granted neither the disposal right nor the apportionment right over an investment.

## 6. Conclusion

As seen above, regarding the relationship between the several heads of the zaibatsu or the zaibatsu investors (families) and the investment, various restrictions had to be accepted as a result of becoming investors. In consequence, the following points can be ascertained excluding the circumstances regarding the Iwasaki family:

1. Because of the strong restrictions imposed upon the investments made for family businesses or corporations by the family group, it was impossible for each investor to withdraw the portion of invest-

ment in his name voluntarily. (This point also applies to Mitsubishi Gōshi Kaisha.)

2. There were such rigid restrictions over the political and economic behaviour of zaibatsu family members that they were not able to act at their discretion as independent individuals. When zaibatsu family members wished to be engaged in economic or managerial activities, they were restricted to their family business or their own corporation in which they were protected and supervised by hired employees (hired executives and specialized managers). (Hozensha rules also contained this regulation in Article 39.)

The zaibatsu families were immersed in collective ownership and collectivistic social life, and, irrespective of how they might have appeared outwardly, they were not, in reality, individuals in the modern sense. It was inevitable that such characteristics of zaibatsu families influenced their relationship with their managers.

## B. Foreign Cases

What were the characteristics of ownership vis-à-vis property and business capital in various foreign family corporations in contrast with the cases of Japanese zaibatsu seen thus far? For this purpose, cases regarding du Pont, Rothschild, Krupp, and Tata will be studied. A general prospect is that the business capital held by du Pont and Rothschild respectively is more a case of co-ownership while that of Krupp became collectively owned from a certain period onward; the Tata's business capital is considered to have been jointly owned.<sup>16</sup>

### 1. Rothschild<sup>17</sup>

Meyer Amschel Rothschild (1744-1812) was a Jewish merchant who resided in Frankfurt. He started out in 1764 as an old coin and antique dealer and subsequently became a world-renowned plutocrat as he became involved in the financial affairs and politics of various royal families and many governments while he was engaged in business. He sent four of his sons,

excluding the eldest, to London, Paris, Vienna, and Naples and made them establish branch offices there. While keeping mutually close contacts, he amassed a great fortune from the fluctuation of public bonds and exchange.

In 1810, the founder concluded a contract of partnership with his sons. The contract stipulated that the capital (800,000 florin) of Rothschild and Company in Frankfurt be partitioned so that the founder held 48 per cent, the eldest son, Anselm, 24 per cent, the second son, Solomon, and the fourth son, Karl, 2 per cent each, and the fifth son, James, 2 per cent. The profit and loss were thus distributed in accordance with these proportions. It is said that the founder's proportion contained the purparty of 24 per cent held by the third son, Nathan (living in London), whose tie was discontinued due to the Napoleonic war at that time. Although the proportions held by the fourth and fifth sons were small, it was decided that the inheritance should be equally divided among five sons so that each would receive one-fifth. Daughters and sons-in-law were given neither the right to speak up concerning the company management nor the right to look into the account books. Moreover, it was stipulated that family members could not create lawsuits over problems in the family. A stipulation which prohibited a lawsuit was also seen in the Mitsui family code as well as in the Hozensha rules, and thus there is a similarity among them.

Shortly before his death in 1812, Meyer Amschel evaluated his portion of the assets at 190,000 gulden and sold it to his sons. The money obtained from this sale was distributed to his wife (70,000 gulden) and five daughters (120,000 gulden). This differs clearly from the Mitsui and Yasuda families, in which sons-in-law were adopted into the family.

While Rothschild's enterprises managed in London by his third son and Paris by his fifth son were given independent positions from an early stage, the enterprises managed in Vienna by his second son and Naples by his fourth son remained as branches of the Frankfurt head office until 1848. Even though the enterprises in London and Paris were

relatively independent, the capital was again invested jointly by the brothers and the profit was apportioned in accordance with each share. By 1818 James, who took charge of the Paris operation, also had a one-eighth share of the London office and a three-sixteenths share each of the Frankfurt and Paris offices. Nathan, head of the London office, had the largest purparty among the brothers, because he held a fourth-eighths share of the Paris office and a four-sixteenths share of the Frankfurt office.

Despite the father's wishing for equal inheritance by the five sons, soon great gaps began to emerge between their portions, and Frankfurt's head office itself later fell. Consequently, dependent on the capability of each brother, the wealth of the partners fluctuated in absolute terms as well as in relative terms. Each brother's right over his investment was highly individualistic, and thus it is considered that the investment was based more upon co-ownership which could be added and subtracted. Furthermore, although it is said that there was strong unity among the five brothers and their descendants, the investment possessed by the founders of each family (five brothers) and their descendants was not totally submerged in the relationship of collectivistic ownership.

On the other hand, with regard to the merchant families and the zaibatsu in Japan, the investment proportion held by the families fluctuated prior to the establishment of a family system. However, upon the establishment of the family system, restrictions that strongly controlled the investors and their families were created so that each portion would not fluctuate in accordance with the competence or incompetence of the heirs. Concerning the Rothschild brothers, it was possible for a younger brother to surpass the older brothers and become prosperous. By the same token, it was allowed that even the eldest son's family could go bankrupt and be abandoned. For the Mitsui families, the status of individual families was so rigidly defined that each family was not permitted to go bankrupt due to individual circumstances.

## 2. Du Pont

The du Pont family immigrated to North America in 1799 during the time of the French Revolution and started gunpowder manufacturing. The family later developed into a gigantic gunpowder trust. Du Pont Company is now well known in the United States as a rigid family corporation that has tried to have one of its family members elected president of the United States throughout the history of the corporation.

Du Pont Company was founded by the capital of outsiders but subsequently became a strong cooperative enterprise managed by the children of the founder.

Upon the death of the founder, Éleuthère Irénée du Pont (1771-1834), the management of the company was succeeded by the eldest daughter's husband, Antoine Bidermann. Although the eldest son, Alfred, was 36 years old at this time and had experience making gunpowder for 16 years, he was not suited for the position of manager. The second son, Henry, aged 22, had resigned from his army commission and joined the company but had been with the company for only five months. The third son, Alexis, had just turned 18 and, although he was recognized as a powder smith, he was too young to be entrusted with the company.

Bidermann had the experience of working with Irénée for twenty years. He paid off the investors as well as all debts within three years after Irénée's death, and the company became wholly family-owned. It is said that he reorganized the company in April 1837 and established a family partnership which consisted of seven brothers and sisters (three males and four females).<sup>18</sup> On the other hand, there is a description which indicates that the partnership was made up of only three males.<sup>19</sup> Judging from the manner in which investment shares were transacted later, the partnership appears to have shifted to the males. Duke wrote as follows:

The seven signatures under Alfred's writing should solemnize the new ownership of the mills. No shares, except through Sophie's marriage to Sam Francis, would go to Victor's side of

the family; even Sophie had agreed with Antoine that only Irénée's children deserved an interest in the company. The seven elected no officers. Theirs would be a simple partnership, with each of the brothers and sisters to draw an equal part of the profits at the end of each year; not even Alfred would receive a salary. What had to be bought for them or their homes, the company would buy. Personally, they would own nothing, not the furniture in their parlors, not the china they ate off, not even a carriage or horse. Should they need transportation, they merely had to inform Henry, and a buggy and driver would be dispatched.

As a final touch to the agreement, a stroke of genius that would keep the company intact for generations and insure that business would be conducted as the partners intended, the shares were allotted to the seven brothers and sisters only for their lifetimes: when they died their children would not inherit their stake in the powder company. Instead, the remaining partners would choose a new partner from among the many younger du Ponts who worked in the mills.<sup>20</sup>

The new partners chose the eldest son, Alfred, as the second president because he was the oldest. Alfred, who was well aware of his own shortcoming, insisted on a triarchy with Henry and Alexis. Thus a management form in which a president is chosen from among the operating partners was decided upon, and this form existed for three-quarters of a century. Henry became the third president in 1850 and Eugene, Alexis's eldest son, became the fourth president in 1889. Although he attempted some reform, it was not a fundamental reform. At this time, although young family members — namely, Alfred I. (second president Alfred's grandson) and Charles I. the third (Irénée's brother Victor's grandson) — were given fairly responsible positions, they were not included among the partners. Consequently, they demanded a share due to increased dissatisfaction and received a 20 per cent share of the partnership which belonged to William (Henry's youngest son). This proportion was divided between them. William returned his share because of personal reasons.

On 23 October 1899, du Pont de Nemours and Company was inaugurated under the new General Corporation Law of the State of Delaware. Eugene became president. Francis G. (Eugene's younger brother) and Colonel Henry A. (third president Henry's eldest son) became vice-presidents

and Charles I. the third was in charge of secretarial affairs and accounting. The first four were each allotted a 20 per cent share of the partnership and Charles and Alfred were given 10 per cent each.

Only those family members who were able to participate in the management could invest in the partnership. The principle whereby family members who had the qualification of operating partners were also in charge of management was identical to Rothschild's case. Among the operating partners, Charles I. the third was a descendant of Victor who was the founder's brother and not a direct descendant of Irénée.

Although du Pont Company was a family corporation with strong unity, in the process of a member's succession to the investment shares, individual capabilities were questioned. Unlike in the Japanese zaibatsu, it seems that a du Pont partner was not provided with the status of partnership irrespective of his capability and function.

In Japanese cases, once a family was designated to have the qualification of producing a partner, the partner's right was inherited by a successor (heir) irrespective of his capability and function, and this status, in principle, could not be substituted by anyone else. While an individual's responsibility and authority were clearly defined in the case of du Pont and Rothschild, the Japanese case is patterned so that a partner's responsibility and authority must be substituted by someone else. Therefore, in Japan a system developed of having hired executives or salaried managers who could indefinitely substitute the duties of a partner (either an investor or a master).

### 3. Krupp

Unlike the cases of du Pont and Rothschild, the Krupp case has many similarities to the Japanese zaibatsu.

Alfred Friedrich Krupp (1812-1887), the head of the Krupp family in the middle of the nineteenth century, stipulated in his will two points regarding the management and control of the plant.

First, to avoid the division of property, the eldest child must own the steel-casting plant, including all its appurtenants, and run it comprehensively. Second, the eldest son must utilize a part of the surplus profit for the innovation and improvement of the facilities in order to prevent the hazard of deterioration and stagnation.

These two points became necessary policies for the firm's maintenance and expansion on a corporate scale due to the circumstances of severe competition because of the development of capitalism. Alfred's son, Friedrich "Fritz" Alfred Krupp (1854-1902), pursued these principles faithfully. Fritz, however, had only two daughters. When Fritz died, his wife, Margarette, submitted the following notice to the board of directors of Krupp and Company:

I hereby notify that upon the death of my husband, the ownership of the entire plant including all outside offices as well as annexed facilities was transferred to my eldest daughter, Bertha Krupp, in accordance with the stipulation made in the will of my husband's father, the late Alfred Krupp, and that I will execute her authority until she reaches adulthood. [The latter part is omitted.]

The Krupp works in 1903 became a joint-stock company with a capital of 180 million marks in accordance with the will of Friedrich Alfred Krupp. In 1906, Bertha married Gustav von Bohlen und Halback (1870-1950), who became the successor of the enterprise. Subsequently, Hitler took the measure in 1943 to approve Krupp's inheritance method under a special law entitled the Krupp Law, and Krupp reverted back to a private company.<sup>21</sup> After World War II, Gustav's son Alfred (head of the firm at the time) died in 1967 right in the midst of Krupp's crisis. His only son, Arund (then 29 years old), abandoned the inheritance right, and thus the Krupp family as owner of the Krupp works was discontinued.

The system of primogeniture pursued by the Krupp family from the end of the nineteenth century to the latter half of the twentieth century emerged because of the social and economic conditions of that time. The other aspect of single inheritance by the eldest implies that the portions of the other children are indirectly included in the inherit-

ance, and thus it must be said that the property held by the eldest was not owned solely by the individual. This was the same as under the Meiji Civil Code which stipulated that the head of a household had to assume the obligation of supporting his brothers and sisters as the heir to the family fortune. This fact seems to imply that a phenomenon similar to the Japanese ie (family) system also emerged under certain conditions in European society.

The first reason for Krupp's crisis was because the administration by Alfred and general manager Wietz could not appropriately cope with diversified operations. As for the other reason, it is said that the crisis worsened because Krupp was stipulated by the family code to be a private corporation and could not be reorganized into a joint-stock company which would have decreased the burden. Furthermore, Alfred's continuing to have faith in general manager Weitz upon whom management was entrusted despite the recommendation by the bank authorities to demote him is said to have been one of the causes of the crisis.<sup>22</sup> It is likely that the relationship between them may have been closer compared to the delegated one between the zaibatsu head in Japan and his salaried managers.

#### 4. Tata<sup>23</sup>

The Tata, the largest financial clique in India, are Parsees. Nusserwanji gave up the priesthood and entered business. It is said that he came to Bombay destitute. He later acquired some funds through the procurement of military goods and ventured into the China trade in 1859. Nusserwanji's eldest son, Jansetji, was then working in a lawyer's office after graduating from university. He was 19 years old. The Tata families were gradually being united at this time, and unification appeared in the form of participation in Nusserwanji and Company. Because the greatest difficulty in trade with China at that time was the exchange of appropriate information, the Tatas tried to overcome this problem through reliance upon kinship relations. In addition, family-oriented values predominated in India at that time.

In the case of the Parsees, it is said that a child reaching a certain age was given the freedom to choose whether or not to join the family business as a functional partner, or to start a new business with an outside partner. The eldest son, Jamsetji, however, began to organize the family, thereby preventing a division of the family assets. By the 1880s the Central Indian Mill Company Limited, which had been started by Jamsetji, was very successful.

Upon the death of Nusserwanji in 1886, Jamsetji decided to establish a head office (managing agency) in order to unify and control the family enterprise and founded Tata and Sons in the following year, 1887, with a capital of 21,000 rupees. It is assumed that management was based upon private partnership. The partners comprised Jamsetji, his eldest son, Dorabji, and his cousin, R.D. Tata. The second son, Ratanji, was to join the partnership later. Soon after the founding of Tata and Sons, Jamsetji established a family trust to secure the living of the members who constituted the family. Certain proceeds from Tata and Sons were entrusted as trust funds for the family members so that each member could receive a dividend on the interest. What could be inherited was the right to receive the dividend, and restrictions were placed on any request for a division of the trust funds.

The family trust established by Jamsetji appears to have been modelled after the practices of the Hindu joint family which established co-owned properties in order to overcome the contradiction between the principle of equal inheritance prevalent in India and the prevention of family assets becoming diffused. However, while co-owned property of the joint family could, in principle, be divided into individual portions, the Tata family trust was indivisible from the beginning because of its objective of pursuing jointly owned assets in perpetuity. Isamu Hirota, who is studying this subject, concludes that the union of the Tata family which permitted the existence of the family trust contained the same factor as those found in the union of the ie system in Japan.

Tata and Sons was transformed into an unlimited partnership with a capital of 15 million rupees in 1907 when the Tata Steel Mill was

established. The family trust was dissolved at that time because the eldest son, Drab, and the second son, Ratan, held 80 per cent of the shares and the cousin R.D. Tata 20 per cent. It appears that the independence of ownership by each partner was somewhat increased. Hirota presumes that the transfer of a family business to an enterprise in Indian society<sup>24</sup> requires an intermediate stage — namely, an ie type of union as seen in the case of the Tata family.

Among the foreign cases, Rothschild and du Pont took special measures for the maintenance of business capital held by the family. Those members of the family who had occupational functions invested in the company and became partners whereupon they obtained shares as functional capitalists with occupational functions.

On the other hand, the Krupp family followed primogeniture over its business capital for three-quarters of a century starting from the end of the nineteenth century, and thus the proceeds from the business presumably contained portions to which the siblings of the heir were entitled. The same phenomenon concerning inheritance was observable among merchant families and the zaibatsu in Japan.

The Tata financial clique also tried to maintain the joint prosperity of the entire family through the establishment of the family trust in a period starting from the end of the nineteenth century to the beginning of the twentieth century.

As seen above, whether in Japan or abroad, the joint ownership of capital by family corporations was a commonly observable phenomenon. The content of joint ownership, however, was different. The most collectivistic ownership was seen in the form of collective ownership pursued by Mitsui, Sumitomo, and Kōnoike. Krupp's ownership pattern is considered to be similar. The holding of Tata's trust funds by the family trust is also regarded as being close to collective ownership.

An examination of such differences was made because the nature of ownership greatly influences business management.

### III. COMPARISON OF MANAGEMENT

Regarding the influence exerted by the nature of ownership upon management, I maintain the hypothesis that the more collectivistic business capital ownership becomes, the less professional is the function demanded of an owner; thus, the degree of reliance upon salaried managers becomes greater in the management.

When ownership becomes increasingly collectivistic, there is a tendency for individual ownership holders to pay more attention to the size of the dividend than to the working of capital (management), even though the working of the joint asset determines the dividend. The founders and their cooperators who amassed a great fortune had the experience and competence to convert small capital into something big. However, those who succeed to great assets which were accumulated in this manner usually are less capable than the founders. Nevertheless, because strong collectivistic restrictions are placed upon the assets in order to prevent them from being divided and diffused, the successors as individuals do not have the opportunity to nurture their capabilities as managers. It is actually safer to rely upon loyal and competent specialized managers; thus it appears that the successors' interest is directed more towards securing a large dividend.

On the other hand, when a group whose members are regarded as highly competent submit their own assets for investment, they hold the attitude that they should be in charge of the corporate management. The group thereby adopts a system in which the investment share and management right either pass or are transferred to a motivated and competent member from among themselves. Such an individual is required to make an effort to improve his capabilities as a manager. Under

these circumstances, the family members would also try to nurture a suitable successor and eliminate an inappropriate candidate. In this sense, the business capital becomes more of a co-owned capital which can be transferred and divided even though it is restricted by the ownership within the family. It is presumed that the capital ownership pursued by du Pont and Rothschild, excluding the earlier stages, falls into this category. Even when the corporate size becomes gigantic, the owners of these families would in principle maintain their corporate functions. Should they delegate responsibility to specialized managers, the delegation of responsibility would be limited to a specific function.

On the other hand, when investors are not necessarily required to be those who possess corporate functions, the delegation of management would actually tend to be unlimited delegation in which the entire management is entrusted even though it may not appear so formally. The nine cases seem to fit this explanation.

#### An Example from the Rothschild Family

An adviser of the Rothschild Bank stated the following regarding the Paris branch of the family:

Rothschild has acquired a new method recently. From 1950 onward, Gui put a new idea into effect at the Rothschild Bank. It used to be common among the Rothschilds to invest in a new enterprise alone, develop it independently, and then sell part of the stocks while holding the controlling right. Despite the fact that the Rothschild Bank today has become larger than ever, the amount of capital needed to start a new large company has become so huge that it is almost impossible for one private enterprise to cover the entire amount by itself. This was the reason why the Rothschild family avoided any new development from the post-World War I period onward. The family now is in the midst of a development. Gui's idea is to participate in it. He accepted outsiders' capital from the beginning, and he has been active as an initiator and coordinator as well as being a guarantor. Irrespective of the amount of his own share, Gui is investing his spiritual capital which comes together with his name. He, of course, is maintaining rigid administration and control.

The above depicts the manner in which Gui, the head of the Rothschild

family in Paris, determines the policies of the Rothschild Bank. A large corporation with a long history such as this one has been employing salaried managers who assist in the activities pursued by the head of the family. For example, ex-president Pompidou was once a manager for this family. It is necessary to clarify the functional assignment of the head of the family (capital owner) and those of the salaried managers.

#### The du Pont Family

As for the du Pont family, its enterprise was reorganized into a stockholding company in 1899. The president died at the end of January 1902 after the founding of E.I. du Pont de Nemours and Company. The shareholders (family members) of the du Pont company, who thought that there was no suitable member in the family to succeed to the presidency, reached the private decision that the company be sold to a competitor, Rafflin and Rand. However, Alfred I. expressed his hope of purchasing the company and succeeded. He thus took over the ownership and management together with two other cousins, Thomas Coleman du Pont and Pierre Samuel du Pont.<sup>26</sup>

What is shown here is the philosophy of the du Pont Company that the owner is to be in charge of management. Consequently, when the family thought that there was no suitable member for management, the family members made arrangements for the sale of a traditional corporation.

It is necessary to study the details further concerning the management pursued by the owners of the Rothschild Corporation and the du Pont Company, both of which had business capital based on co-ownership. However, these companies are reputed for having a management controlled by family members. They differ greatly from the Japanese zaibatsu whose business capital was collectively owned. Is the difference derived from the co-owners with more independence showing a keener interest in management? In the case of the Mitsubishi zaibatsu in Japan, the business capital was co-owned by two Iwasaki families. Although research is still insufficient, is it not possible to make

progress in an international comparison of ownership and management through an examination which correlates the comparison of ownership to the comparison of management as was shown thus far? In addition, could this not show an objective light on the nature of various corporations in modern times?

## NOTES

1. The various studies done by Shinchō Tsuda and Hiroshi Kan are considered to be empirical and constructive.
2. I have already attempted an international comparison of family corporations in the following books: Shigeaki Yasuoka, Zaibatsu no Keizai-shi [A business history of the zaibatsu] (Nihon Keizai Shimbun-sha, Tokyo, 1978); Shigeaki Yasuoka, ed., Nippon no Zaibatsu [The Japanese zaibatsu]; Shigeaki Yasuoka, "Nippon Zaibatsu no Rekishiteki Ichi" [Historical position of the Japanese zaibatsu] in Mataji Miyamoto and Keiichi Nakagawa, Nihon Keiei-shi Kōza [Lectures on Japanese business history], vol. 3 (1976) (Nihon Keizai Shimbun-sha, Tokyo).
3. Sakae Wagatsuma, Bukken Hō (Minpō Kōgi II) [The law of jus in rem (lectures on Civil Code II)] (Iwanami Shoten, Tokyo, 1952), pp. 208 ff. Takeyoshi Kawashima, Shoyūken Hō no Riron [The theory of the ownership law] (Iwanami Shoten, Tokyo, 1949), pp. 200 ff.
4. See "Nippon Shihonshugi to ie" [Japanese capitalism and the ie] in Doshisha University, Institute for the Study of Humanities and Social Science, ed., Kyōdō Kenkyū Nippon no ie [Joint study of the Japanese ie] (Kokusho Kankō).
5. In 1937 and 1940 the zaibatsu head offices of Sumitomo, Mitsubishi, and Mitsui were reorganized into share-holding companies.
6. Hidemasa Morikawa, Zaibatsu no Keiei-shiteki Kenkyū [A study on the management history of the zaibatsu] (Tōyō Keizai Shimpō-sha, Tokyo, 1980). Although the author differentiates hired executives (bantō) from salaried managers, they share the same quality in the sense that both of them were totally entrusted with management. Refer to my book review on Mr. Morikawa's book in Keieishigaku [Studies on management history], vol. 16, no. 2 (forthcoming).
7. Based on Ichiro Kobashi's "Kyodo Shoyū Keitai ni tsuite" [Regarding the forms of co-ownership] (Doshisha University, Institute for the Study of Humanities and Social Science: A Report of the Second Study Group, 22 September 1980). In addition, the following is mentioned with regard to the property held by a family head under the Meiji Civil Code:

Those who drafted the Civil Code in this country stipulated a unique concept regarding the "family system" and "succession to a family headship." This was done in order to harmonize the modern property system underlying the entire civil code

with that of the idea of family collectivism. It was important because the agrarian population which occupied a significant portion of the entire population could not be ignored. In other words, every family member is completely a competent holder of the modern right (Articles 1 and 748), and a family property lost its legal restrictions and became an individual property belonging to the family head (the head of a household). Nevertheless, it tries to maintain de facto the quality of family property under the system of succession to a family headship (single inheritance). Takeyoshi Kawashima, Shoyūken no Riron (Iwanami Shoten), p. 208.

As stated above, although the household head's property became de jure an individual property, it was de facto more of a family property. Consequently, it is considered that the property continued to have the characteristics of collective or joint ownership.

8. Sakae Wagatsuma, op. cit., p. 212.
9. Zaidan Hojin Mitsui Bunko, ed., Mitsui Jigyō-shi [Mitsui enterprise history], no. 3 (1974) and Shigeaki Yasuoka, Zaibatsu Keiseishi no Kenkyū [A study on the formative history of the zaibatsu] (Minerva Shobō, Tokyo, 1970) contain all the articles of the Mitsui family code.
10. The basis underlying the Kōnoike family code of 1889 was carried on to the revised one of 1899. The comparison of the two is found in Kensuke Hiroyama, "Meiji Taisho-ki ni Okeru Kōnoike no Kigyō Katsudo, I" [Business activities of the Kōnoike family in the Meiji and Taisho periods, I] (Osaka Daigaku Keizaigaku [The University of Osaka, Department of Economics], vol. 29, no. 1, 1979).
11. Shigeaki Yasuoka, "Shōka ni Okeru Kaken no Seiritsu (Shiron) — Sumitomo Kahō no Kakureta Bubun tonō Kanren ni Oite" [The establishment of a family code in a merchant family (tentative paper) — in relation to the hidden section of the Sumitomo family code], Doshisha University, Institute for the Study of Humanities and Social Science, Shakai Kagaku [Social science], no. 24 (1978).
12. Shūko Shirayanagi, Sumitomo Monogatari [The tale of Sumitomo] (Chikuma Shobō, Tokyo, 1931).
13. Yasuda Hozensha to Sono Kankei Jigyo-shi [Yasuda family company and the history of its related activities] (Yasuda Real Estate Co. Ltd., 1974), pp. 114 ff.
14. Compilation committee on the biographies of Yataro and Yanosuke Iwasaki, Iwasaki Yanosuke Den [A biography of Yanosuke Iwasaki], 1971, p. 297.
15. Mitsubishi Shashi [Mitsubishi company history], vol. 21 (Tokyo Daigaku Shuppankai, Tokyo, 1980), p. 961.
16. The cases henceforward are primarily based on Shigeaki Yasuoka, Zaibatsu no Keiza-shi (op. cit.).

17. It is said that there are enough reference books regarding the history of the Rothschild family to fill a large library. However, the following are easily obtained: Jan Bouvier, Rothschild, trans. into Japanese by Ryūichirō Inoue (Kawade Shobō Shinsha, Tokyo, 1969), Frederic Morton, Rothschild Ōkoku [The Rothschild plutocracy], trans. into Japanese by Tomiyasu Takahara (Shinchōsha, Tokyo, 1975), Yasuo Nakaki, Rothschild Ke [The Rothschild family] (Shibundo Shinkōsha, Tokyo, 1980).
18. W.H.A. Kerr, Du Pont, trans. into Japanese by Toshiko Morikawa (Kawade Shobō Shinsha, Tokyo, 1969).
19. J.K. Winkler, Du Pont Dynasty, 1935.
20. M. Duke, The du Ponts, 1976, p. 129.
21. This passage is based upon Minoru Morota, Krupp (Toyō Keizai Shinpo-sha, Tokyo, 1970).
22. Shigechika Urata, "Krupp-ke no Shuen" [The finale of the Krupp family] (Sekai Shūhō, vol. 48, no. 36, 5 September 1967).
23. Shoji Ito, "Indo ni Okeru Zaibatsu no Shutsuji ni Tsuite" [Regarding the emergence of a financial clique in India], Shakai Keizaishigaku [Social economic history], vol. 45, no. 5 (1980). Shoji Itō, "Indo ni Okeru Daizaibatsu no Dozokuteki Seikaku no Saikentō" [A re-examination of family characteristics concerning a large financial clique in India], Keizai to Keizaigaku [Economy and economics] (1978). Isamu Hirota, "Indo ni Okeru Kazokuteki Keiei no Seiritsu Jijō — Parsees Bourgeoisie o Sozai to Shite" [Circumstances pertaining to the establishment of family management — with special reference to the Parsee bourgeoisie], Shōgaku Ronshū [Theories on business] (Doshisha University, Graduate School), no. 14 (1979). The passage here was mainly based on Hirota's thesis.
24. On the basis of Keiichiro Nakagawa's theory (Hikaku Keiei Josetsu [An introduction to comparative management], Tokyo Daigaku Shuppankai, 1981, p. 246), Hirota considers that a family business transformed into family management first and then into a corporation.
25. Morton, op. cit., p. 249. I have slightly revised the translation.
26. Kerr, op. cit. (translation), pp. 188 ff.

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