

*Bridging the gap between local and global:
Two economic functions of Shibusawa Eiichi's
Gappon-shugi in Japan's modernization*

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Jan 2013

No.162

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Two economic functions of Shibusawa Eiichi's Gappon-shugi in Japan's modernization

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Introduction

This presentation aims at demonstrating how Japan has bridged the gap between a local context and a global economy during its modernization process in the early stage of industrialization, from the 1880s to 1920s. In the process of modernization, Japan, as well as other latecomer countries, faced pressures from global markets for the first time in its history. In order to be a part of the international environment and to compete with the more advanced economies' enterprises, it was essential for Japan to mobilize human resources and secure a money supply. Thus, this presentation focuses on Shibusawa Eiichi, who played a major role in the mobilization of funds and in the development of human resources during Japan's modernization.

Shibusawa Eiichi (1840–1931) played a significant role as one of the most historically well-known Japanese managers. He introduced the concept of *gappon-shugi* to describe a specific type of corporation based on manpower, capital, technology, information and intellectual networks, all valuable elements to help Japan to modernize and bridge the gap between the local and global. This concept guided him to pursue social entrepreneurship and conduct business activities. During his life, he established 470 companies, and was the founder of the Japanese banking system.

Shibusawa's concept of *gappon-shugi* is a unique feature of thoughts based on a particular philosophy of capitalism, which contributed in a positive manner to the modernization of Japanese economy and society. During his travels to Europe from the mid to late nineteenth century, he was impressed by the economic model found there that sought to garner both large and small investments to pursue entrepreneurial activities. When he came back to Japan, he devised a more sophisticated definition of business development and entrepreneurial activity reflected in the idea of what he termed *gappon-shugi*, an effort to assemble competent people and raise funds from a wide variety of sources in order to accomplish simultaneously business profits and enhance public welfare.

Although many studies have focused on Shibusawa's role in the introduction of new mechanisms of fundraising, we also aim at analyzing his actions to promote human resources which is the second economic function of *gappon-shugi*. In fact, Shibusawa Eiichi strongly supported education, and contributed to the development of many schools and educational institutions. He especially recognized the importance of business studies as well as women's education, and he devoted his efforts through the creation of private-financed educational programs. Shibusawa was involved in the establishment of many of these institutions and participated actively in their administration as a director or a president. We thus demonstrate through this example that the promotion of human resources through educational institutionalization represents another of Shibusawa's contributions to the

modernization of Japan.

Three types of top managers

Shibusawa Eiichi was born in 1840 and died in 1931. During his roughly ninety years, Japan experienced the end of the Edo period and the opening of its ports, the Meiji Restoration, an industrial revolution, urbanization and electrification, and the development of heavy and chemical industries, and forged ahead on its path toward industrialization. Many entrepreneurs played important roles in the industrialization process, and they can largely be divided into three types:

- 1) Owner managers such as Iwasaki Yataro
- 2) Salaried managers such as Nakamigawa Hikojiro
- 3) Investor managers such as Shibusawa Eiichi

The first half of this piece reviews Japan's industrialization process. Against that backdrop, the second half discusses in depth the activities of each of the three types of top manager. Finally, light is shed on the relations among the three, based on which implications on latecomer countries are clarified when inferred from Japan's experience.

Japan's industrialization process

Industrialization itself can begin in the form of the handicraft industry before the introduction of machine systems, so it cannot be said that no signs of birth of a move toward industrialization were seen in Edo Japan. By the mid-nineteenth century, wholesale-system domestic industries, mainly in the textile weaving industry, showed considerable progress. Some of these used manufacturing (factory handicraft) management systems, but this equated to proto-industrialization¹; i.e., a phase just preceding industrialization. Japan did not commence full-fledged industrialization until it had contact with global capitalism as a result of the opening of its ports at the end of the Edo period.

After going through the process that began with the arrival of Matthew C. Perry (commander-in-chief of the U.S. squadron) in 1853, followed by the conclusion of the Treaty of Peace and Amity between the United States and Japan in 1854 and the conclusion four years later, in 1858, of the Treaty of Amity and Commerce between the nations, the Tokugawa Shogunate was forced to abandon its self-isolation policy and open the nation's ports. Japan was directly confronted by global capitalism, as seen in Great Britain, which had already solidified its position as the "world's factory," and was overwhelmed by the gap in economic and military strength between itself and major western powers. Japan's having no choice but to accept the violation of judicial independence (one-sided consular jurisdiction) and forfeiture of customs autonomy (conventional tariff system) in the treaties of amity and commerce it signed with major western powers embodied this imbalance. The latter "fixed

¹ Proto-industrialization (*genkitekiki kogyoka* in Japanese) is a concept proposed by Franklin Mendels based on a case study of the Flanders region in the 18th century.

Japan as a rare practitioner of the principle of free trade and deprived it of its freedom to adopt protective tariffs as an instrument of industrial policy.”² Japan did not come close to recovering its customs autonomy until conclusion of the New Treaty of Commerce and Navigation between Japan and the United States in 1911.

The greatest political effect from the opening of the ports in the last days of the Edo period can be found in the fact that it triggered movements of nationalistic reverence for the Emperor and for the expulsion of foreigners. This consequently led to the collapse of the Tokugawa regime and the end of Japan’s feudalism. Another significant influence over Japan from an economic perspective was that the opening of the ports in one stroke accelerated primitive accumulation, in which the two necessary elements in capitalism, capital and wage earners, are accumulated. Primitive accumulation continued to advance after the Meiji Restoration. It entered its final stage when the disassembly of the peasants rapidly advanced in the wild waves of inflation and deflation brought about by the Okuma and Matsukata fiscal administrations³. The establishment of the Bank of Japan in 1882 was an event symbolic of the temporary achievement of the accumulation of funds, an aspect of primitive accumulation.

In Japan, when primitive accumulation as a prerequisite for capitalism was nearing its final stage around 1880, leading companies were established in sequence in the form of stock corporations. Tokio Marine Insurance Company, Nippon Railway, and Osaka Spinning Company were established in 1879, 1881, and 1882, respectively. Success in these pioneering cases boosted confidence in the stock corporation system. In the four years of 1886–1889 there was a boom in the establishment of new firms or what was called the “rise of new companies,” including insurance, railway, and spinning companies that used the corporation system. Though the 1890 depression brought this rise to an abrupt end, its undeniable implication was that Japan was moving toward full-fledged industrialization.

The outbreak of the 1890 depression after this rise meant that capitalist production had entered full swing in Japan. If the establishment of capitalism in a country is an industrial revolution, Japan’s began in the 1880s, trailing Great Britain by more than a century. In industrial revolutions in latecomer countries such as Japan, one aspect present is that advanced technology developed by pioneering countries is readily available, but another aspect is the problem of having to achieve industrialization under import pressure from the pioneering countries. Labor costs are lower in latecomer countries so that this pressure can be mitigated to some extent for labor-intensive light industries. In capital-intensive heavy industries, however, the pressure is severe. Accordingly, in order for an industrial revolution

² Miwa Ryoichi, *Gaisetsu Nippon keizaishi: kingendai* [Introduction to Japanese economic history: modern history], University of Tokyo Press, 1993, p. 23.

³ Okuma Shigenobu and Matsukata Masayoshi took the post of Lord of Treasury in 1873 and 1881, respectively. Under the Okuma fiscal administration, inflation emerged, while deflation progressed under the Matsukawa fiscal administration.

to be achieved in latecomer countries, it is necessary to realize not only (i) establishment of factory production based on machine systems in light industries such as textiles, but also either (ii) stable import of heavy industrial products guaranteed by inducing light industries to become export industries, or (iii) solid prospects for domestic production by the heavy industries themselves. In Japan, the Osaka Spinning Company's 1883 startup of a large factory with 10,500 spindles was a groundbreaking event in relation to the above point (i). Regarding (ii), it was important that the export volume of cotton yarn overtook its import volume in 1897 and that the export of raw silk surged during 1900–1905. Moreover, with respect to (iii), there were also situations such as the blast furnaces starting full-scale operation at the Governmental Yawata Iron & Steel Works in 1904 and self-sufficient production systems being established in industries such as shipbuilding and armament production in the latter half of the 1900s. As a result, Japan's industrial revolution came to completion from the middle to latter part of that decade.

While the industrial revolution advanced, Japan experienced the Sino-Japanese War of 1894–95 and Russo-Japanese War of 1904–05. The scale of central and local public finance in Japan was boosted after the wars, and government funds were spent in various sectors. Initial programs that were put in place as post-Sino-Japanese-War management included military expansion, establishment of the Navigation Encouragement Act and Shipbuilding Encouragement Act (both in 1896), establishment of government-owned iron and steel plants (the official organization system for steel mills was propagated in 1896, and Yawata was chosen as the location of a governmental iron and steel works in 1897), establishment of special banks (Nippon Kangyo Bank, Ltd., Prefectural Noko Banks, Hokkaido Takushoku Bank, Ltd., and Industrial Bank of Japan, Limited, commenced in 1897, 1898–1900, 1900, and 1902, respectively), and the expansion of the telecommunication and telephone businesses. These programs were followed by measures for post-Russo-Japanese-War management such as military expansion, nationalization of railways and establishment of the South Manchuria Railway (Mantetsu) (both in 1906), and expansion of governmental iron and steel plants and the telecommunication and telephone businesses. During this period in 1897, using massive reparations obtained from China under the Manchus to build up the necessary gold reserves, the gold standard system was enacted in Japan. In addition, through the colonization of Formosa in 1895 and South Sakhalin in 1905, and the annexation of Korea in 1910, Japan's colonial administration also began in earnest.

The completion of Japan's industrial revolution took place immediately after the end of the Russo-Japanese War. The post-Russo-Japanese-War depression that started in 1907 extended over a prolonged period. Around 1910 there was a "temporary prosperity" driven mainly by the electricity industry that took advantage of a hydroelectricity boom, while the overall pace of economic activity languished. This led to a crisis in which balance of payments worsened and pushed the Japanese economy into a period of stagnation. However, World War I in 1914–18 drastically changed such situations. As seen in the fact that it was also called the Great European War, Japan took part as an ally of Britain, France, and Russia, but remained

quite a distance from the battlefields. There was sharp expansion of all export of military supplies and food to the European allies, export to Asian countries where withdrawal of European countries yielded new business opportunities for Japan, and export of raw silk to the United States where a wartime economic boom was triggered. At home, domestic production of heavy industries that previously had a high degree of dependence on European imports progressed to a certain degree and helped the nation pull itself out of its balance of payments crisis. During the period of World War I and in 1919 amid the reconstruction demand immediately after the war, Japan's economic growth rate surged to a historic high, culminating in the so-called Great War boom and postwar economic boom. World War I also caused the gold standard system to cease functioning globally. In 1917, Japan also left the gold standard system when it prohibited the export of gold.

The economic booms were caused purely by non-repeating factors – World War I and postwar reconstruction – so that they did not have staying power. With the development of a reactionary depression in 1920, the situation again deteriorated, and the Japanese economy faced an era of chronic recession, under which not only the reactionary depression but also other economic downturns occurred in sequence. These were the earthquake depression of 1923, financial depression of 1927, and Showa Depression of 1929–31. Balance of payment difficulties again deepened and Japan struggled to resume the gold standard system. Finance Minister Inoue Junnosuke wrenched the cancellation of the prohibition of gold export (so-called repeal of the gold embargo) through austere fiscal policy. In January 1930, in the middle of the Showa Depression, Japan finally reverted to the gold standard system. Linked to the world economic crisis that originated in the United States, this became the largest phase of depression in modern Japanese history. In 1930 and 1931, the nominal national income in Japan recorded significant negative growth.

However, the point that cannot be overlooked here is that the economic growth rate during the 1920s when Japan was under a chronic recession was not necessarily low from a global perspective. According to descriptions in *Kindai Nippon keizaishi yoran* [Handbook of modern Japanese economic history] (second edition) edited by Ando Yoshio (University of Tokyo Press, 1979), the economic growth rate in Japan from the 1910s through the 1920s, both in terms of total and per capita amounts, slightly exceeded that of the United States, which was a leader in world economic development at that time. What enabled Japan to achieve growth that exceeded international norms, despite the deepening mood of recession, was the expansion of the domestic market during the same period, primarily attributable to the advancement of urbanization and electrification. Miwa Ryoichi considers that “the Japanese economy evolved to move onto the next stage in terms of the size of the economy, triggered by World War I.” He presents a view that “since the 1920s, the beginnings of a movement toward a mass consumption society began in Japan, accompanied by change in consumption practices in the direction toward westernization.”⁴

⁴ Miwa, aforementioned book, p. 100

Owner managers as typified by Iwasaki Yataro

Iwasaki Yataro who founded the Mitsubishi zaibatsu (financial and industrial conglomerate) was an entrepreneur often discussed in contrast to Shibusawa Eiichi. This distinction is well represented in the assessment of Iwasaki the individualist versus Shibusawa the *gappon-shugi* practitioner⁵. Iwasaki and Shibusawa were actually engaged in fierce competition involving their companies in the shipping industry.

In 1870, Iwasaki, a low-ranking warrior of the Tosa clan, launched a marine transportation business (the company adopted the name Mitsubishi Shokai in 1873). After the Meiji Restoration, Iwasaki had great success as a shipping agent upon winning the competition with Nipponkoku Yubin Jokisen Kaisha, a government-owned marine transportation company. In 1877 when the Seinan War broke out, Yubin Kisen Mitsubishi Kaisha undertook military transportation for the Meiji government, which aided the establishment of mixed cargo shipping associations in many parts of Japan, and concluded exclusive cargo shipping agreements with them. However, with a political change in 1881, the Meiji government made a transition to regulate the activities of Yubin Kisen Mitsubishi Kaisha, thereby igniting fierce competition between Yubin Kisen Mitsubishi Kaisha and a new shipping company, Kyodo Unyu Kaisha (literally, “joint transportation company”), sponsored by the government. Shibusawa Eiichi was one of the key foundation members of Tokyo Fuhansen Kaisha, the predecessor of Kyodo Unyu Kaisha.

Kyodo Unyu Kaisha and Yubin Kisen Mitsubishi Kaisha took steps toward a compromise upon the death of Iwasaki Yataro in 1885, and in that year merged to establish Nippon Yusen Kaisha. After Iwasaki’s death, the businesses of the Mitsubishi zaibatsu were succeeded by his younger brother Iwasaki Yanosuke. Under Yanosuke’s control, the Mitsubishi zaibatsu began in earnest with business diversification called “development from the sea to shore,” which led to the formation of the zaibatsu’s operating bases.

Iwasaki Yataro was a representative owner manager who owned his company and took part in its management. Japan, in the early days of its industrialization, produced many entrepreneurs who, like Iwasaki, founded their own companies to become owner managers. Other examples include Yasuda Zenjiro, who founded the Yasuda zaibatsu, which was also called a *kinyu zaibatsu* (financial conglomerate), and Asano Soichiro and Furukawa Ichibei, who respectively founded the Asano and Furukawa zaibatsu, both of which were called *sangyo zaibatsu* (industrial conglomerates).

Born in Toyama Prefecture, Yasuda Zenjiro came to Edo (former Tokyo) and opened a money exchange store called Yasuda Shoten in 1866. Even during the chaotic transition period from the end of the Edo period to the Meiji period, Yasuda served both the Tokugawa Shogunate and the Meiji Government. Taking the money made during this period, he set up

⁵ For example, such a perspective is also taken in *Yuki dodo* [Heroic drive and boundless energy] (published under the original title *Kanto* [Cold light] in 1971), a novel by Shiroyama Saburo that depicts Shibusawa Eiichi.

the Yasuda Bank in 1880. He then put banks all over the country under his control and in 1912 established Gomeigaisha Hozensha (later renamed Yasuda Hozensha) as a holding company to oversee the entire Yasuda zaibatsu.

Asano Soichiro was also from Toyama. After repeated failures, he succeeded in acquiring a government grant for a government cement plant in 1884 and set it on the right track. Thereafter, Asano made his foray into the coal and shipping businesses, which were deeply connected with the cement business. He was also actively involved in land reclamation in the Keihin Industrial Zone. On the reclaimed ground, Nippon Kokan Co., Asano Shipbuilding Co., and other affiliates of the Asano zaibatsu constructed their plants. In 1918, the Asano Dozoku Kabushikikaisha (Asano Affiliated Corporation) was established as a holding company. The Asano zaibatsu had a weakness in funding, so financial support, mainly from Shibusawa Eiichi and hometown compatriot Yasuda Zenjiro, was essential.

Kyoto native Furukawa Ichibei purchased the Ashio Copper Mine in 1877. In 1885, he purchased the Innai Mine and Ani Mine to focus development of his business on mining. Furukawa himself had a basic policy of focusing on the mining business and was not particularly aggressive about entering other fields, except for electrolytic copper refining and copper wire manufacturing. However, after his death, the Furukawa zaibatsu strengthened its approach toward business diversification. In 1911, Furukawa Gomei was established aimed at becoming a comprehensive zaibatsu⁶. The Furukawa zaibatsu was similar to the Asano zaibatsu in that they were both in need of Shibusawa Eiichi's financial support.

Salaried managers as typified by Nakamigawa Hikojiro

Notable here is that in Japan before World War II, salaried managers who were not owner managers were more prominent in zaibatsu-affiliated companies than in those not affiliated. Salaried managers worked their way up to top management by utilizing specialty knowledge obtained in institutions of higher education and at places of work. They were different types of entrepreneurs from owner managers who became top management based on ownership.

Salaried managers were relatively more prominent in zaibatsu-affiliated companies because "in Japan's zaibatsu, the relationships between a family or its kinship and the head office of the company that is capitalized by the family, and the relationships between the head office and its directly affiliated companies worked as dual containment of ownership."⁷ What had great significance in the containment of ownership with regard to the relationships between a family or its kinship and the head office of the company that is capitalized by the family was the reality that the family or its kinship's ownership in zaibatsu was based on a

⁶ The Furukawa zaibatsu's movement for becoming a comprehensive zaibatsu, however, suffered a forced setback due to the failure of Furukawa Shoji in 1921 triggered by the so-called Dalian Incident (soybean speculation failure).

⁷ Kikkawa Takeo, *Nippon no kigyō shudan* [Company groups in Japan], Yuhikaku, 1996, p. 231.

common ownership system. This was a system in which “family property was not allowed to be divided and freedom of disposal, the original characteristic of private property, was not allowed for any member of the family.”⁸ This worked to constrain ownership. In addition, in the relationships between the head office and its directly affiliated companies, the former played the role of the latter’s stable shareholder. Reflecting the penetration of salaried managers mainly in zaibatsu-affiliated companies, the weight of salaried managers in the board of directors of large companies in Japan on the whole (including non-zaibatsu-affiliated companies) steadily increased until 1930.

Nakamigawa Hikojiro was an impressive figure in playing a pioneering role as a salaried manager in a zaibatsu-affiliated company. In 1891, Nakamigawa was assigned to the post of managing director of Mitsui Bank Limited (in the next year, 1892, he assumed the office of deputy chief). At that time, Mitsui Bank was undergoing a dire financial crisis with an accumulation of bad debts caused by its corporate structure reflecting its privileged position in government. Nakamigawa tackled the restructuring of the bank by introducing and promoting a series of reforms, including the settlement of non-performing loans, development of various industries by means such as investment and financing (providing support to Shibaura Engineering Works, Oji Paper Co., Ltd., Kanegafuchi Spinning Co., Hokkaido Colliery & Steamship Co., Ltd., Tomioka Silk Mill, and other companies), and mass hiring of salaried managers⁹.

Nakamigawa was a salaried manager who studied at the Keio School (now Keio University) and invited many graduates of the school to join the Mitsui family’s businesses. Invitees included Asabuki Eiji (who moved from Mitsubishi and later became the chairman of Oji Paper Co., Ltd.; hereinafter written in the same sequence), Fujiyama Raita (managing director of Oji Paper Co., Ltd., president of Dai-Nippon Sugar Co., Ltd.), Muto Sanji (president of Kanegafuchi Spinning Co.), Wada Toyoji (president of Fuji-Gas Spinning Company), Ikeda Seihin (director of Mitsui Bank, director of Mitsui Gomei Kaisha, governor of the Bank of Japan, Minister of Finance), Hibi Osuke (chairman of Mitsukoshi), Fujiwara Ginjiro (president of Oji Paper Co., Ltd.), and Kobayashi Ichizo (president of Hankyu Railway, president of Tokyo Dento Kabushiki Gaisha, Minister of Communications). All became representative salaried managers in Japan before World War II.

The appointment of salaried managers was also seen with Mitsubishi. Its distinctive characteristic was the proactive stance in employing salaried managers taken by owner

⁸ Takeda Haruhito, *Takakuteki jigyo bumon no teichaku to konzern soshiki no seibi* [The establishment of diversified departments and the development of conglomerate organizations], Center for Business and Industrial Research, Hosei University; *Nippon keizai no hatten to kigyo shudan* [Development of the Japanese economy and enterprise groups], edited by Hashimoto Jyuro and Takeda Haruhito, University of Tokyo Press, 1922, p. 78

⁹ However, the industrialization policy promoted by Nakamigawa Hikojiro led to an earning deterioration over the short term, which led to criticism of Nakamigawa’s reforms within Mitsui. This was one of the reasons he died young, at the age of 47, in 1901. He never saw the results of his reforms.

managers Iwasaki Yataro and Iwasaki Yanosuke. Those who joined Mitsubishi included Shoda Heigoro (chief manager of the head office of Mitsubishi Joint Stock Company), Yoshikawa Taijiro (president of Nippon Yusen Kabushiki Kaisha), Toyokawa Ryohei (manager of the Banking Department of Mitsubishi Joint Stock Company), Asabuki Eiji (mentioned previously), and Yamamoto Tatsuo (governor of the Bank of Japan), who were Keio School graduates, and Kondo Renpei (president of Nippon Yusen Kabushiki Kaisha), Suenobu Michishige (chairman of Tokio Marine Insurance Company), Kato Takaaki (Prime Minister), and Isono Kei (founder of Meidi-Ya Co., Ltd.), who were graduates of the University of Tokyo.

Investor managers as typified by Shibusawa Eiichi

Shibusawa Eiichi was neither an owner manager like Iwasaki Yataro nor a salaried manager like Nakamigawa Hikojiro. Shimada Masakazu, who conducted an in-depth examination of Shibusawa's entrepreneurial activities, presents a provocative view that Shibusawa Eiichi was an investor manager¹⁰.

In 1873, Shibusawa became the general office director of the Dai-Ichi Kokuritsu Ginko (National First Bank). Two years later, in 1875, he became the bank's president. Using this as a solid platform, he chaired various stock corporations from the 1890s through the early 1900s. These included Tokyo Gas Co., Ltd., Nihon Renga Seizo Co., Ltd, Tokyo Rope Mfg. Co., Ltd., Kyoto Orimono (Textile), Tokyo Jinzo Hiryo, Tokyo Iishikawajima Zosenjo, Imperial Hotel, Ltd., Oji Paper Co., Ltd., Iwaki Coal Mine, Hiroshima Suiryoku Denki, and Sapporo Beer. He was also involved in the establishment of large companies that paved the way for Japan's industrialization and modernization, including the Osaka Spinning Company, Nippon Railway, Tokio Marine Insurance Company, and Nippon Yusen Kaisha, and played active roles as an officer of these companies.

The economic thinking that formed the basis of Shibusawa's distinguished work as a private entrepreneur was *gappon-shugi*. This was a concept that *gappon-ho* (*gappon* system) was the only way to make the entire society rich based on a value system that "not only an individual but society as a whole needs to grow wealthy."¹¹

According to Shimada Masakazu, Shibusawa's entrepreneurial activities had two aspects of (1) simultaneously establishing many modern companies and (2) setting industries related to infrastructure and those essential for modernization on the right track, since both require long-term involvement. Crucial in (1) was the mechanism of stock price formation → securing funds through partial sales of shares → using the funds as starter capital for the

¹⁰ Shimada Masakazu, *Shibusawa Eiichi no kigyosha katsudo no kenkyu* [A study on entrepreneurial activities of Shibusawa Eiichi - founder of the pre-war Japanese model of the joint-stock company, investor, and executive], Nihon Keizai Hyoronsha, 2007, reference.

¹¹ Kenjo Teiji, *Hyoden Nippon no keizai shiso: Shibusawa Eiich* [Biography of Japanese economic thoughts: Shibusawa Eiichi], Nihon Keizai Hyouronsha, Ltd., 2008, p. 63.

next company, and in (2) was “utilization of extensive networks of entrepreneurs who have financial power.”¹²

Shimada Masakazu also classifies the roles Shibusawa performed in general shareholders’ meetings after establishment of the companies in which he was involved into three categories: (i) involvement as a large shareholder, (ii) involvement as an outside board member, and (iii) support of mergers outside general shareholders’ meetings. Shimada concludes that, “in each of the above cases, the function expected of Shibusawa was the role of adjusting conflicts of interest among relevant parties and trying to achieve resolutions through arbitration and intermediation.”¹³

An investor manager who can be cited as having similar characteristics to Shibusawa Eiichi was Godai Tomoatsu, who was mainly active in Osaka. The two men were positioned together as “Shibusawa Eiichi of the east, Godai Tomoatsu of the west.”

The difference between owner managers and investor managers is clearly shown in the opposing portrayal of individualism versus *gappon-shugi*. The former thought they owned their company whereas the latter thought that many shareholders owned their company. Moreover, the difference between salaried managers and investor managers can be assessed by the point that the former became top managers not through investment but purely by specialty knowledge¹⁴ whereas the latter became top managers based on investment. Investor managers were different from owner managers and salaried managers, and were the third type of entrepreneur.

Shibusawa Eiichi’s contribution to human resource development

In order for a latecomer country to achieve industrialization and get on the track toward economic progress as an emerging country, it is crucial to employ funds as well as to secure human resources. In reality, the *gappon-shugi* advocated by Shibusawa Eiichi upheld human resource development as an equally important aim to raising funds.

Table 1 shows donations by area made by Shibusawa Eiichi during his life. The Shibusawa Eiichi Memorial Foundation estimated the amounts by adjusting them to their equivalent value in 2006. The table clearly shows that the largest donation area was education/academics both in terms of amount of money and number of cases. Shibusawa devoted a great deal of effort also in human resource development based on his belief that the development and securing of human resources was imperative in the formation of modern Japan.

¹² Refer to chapter 1 of Shimada’s aforementioned book.

¹³ Refer to chapter 3 of Shimada’s aforementioned book.

¹⁴ Salaried managers often became equity holders by acquiring treasury shares as they climbed the career ladder in their company. However, their career success was purely attributable to their specialized knowledge, and becoming equity holders was only as a result of career success.

Table 1. Donations by area made by Shibusawa Eiichi during his life

Donation area	Amount (yen)	Amount ratio (%)	Number of cases	Amount/case (yen per case)
Education/academics	638,557,623	34.7	190	3,360,830
Social work/welfare	341,143,724	18.5	64	5,330,371
Domestic relief	94,715,461	5.1	36	2,630,985
Overseas relief	13,477,591	0.7	15	898,506
International activities	72,633,972	3.9	65	1,117,446
Religion	141,990,098	7.7	57	2,491,054
Military affairs/imperial rule assistance	107,172,570	5.8	39	2,748,015
Awards, etc.	37,843,405	2.1	25	1,513,736
Tokugawa family	69,086,803	3.8	8	8,635,850
Economic/industrial promotion	7,952,569	0.4	9	883,619
Kinship	144,566,256	7.9	12	12,047,188
Hometown/public works	17,108,884	0.9	14	1,222,063
Support for private organizations	119,414,568	6.5	60	1,990,243
Others	34,133,959	1.9	29	1,177,033
Total	1,839,797,483	100	623	2,953,126

Source: Compiled by the Shibusawa Eiichi Memorial Foundation

Note: Amounts indicated are after adjusting to equivalent value in 2006.

Conclusion: Implications for the industrialization of latecomer countries

We have seen here that there were three types of entrepreneurs – owner managers, salaried managers, and investor managers – who took active roles in Japan’s industrialization process. So then what were the relationships among them?

Owner managers, through the expansion of the scale of their businesses and diversification, became unable to manage their businesses solely with their own resources and needed assistance from salaried managers. Typical examples are Iwasaki Yataro and Iwasaki Yanosuke, who formed the Mitsubishi zaibatsu and proactively hired such managers.

Among owner managers, those with insufficient access to capital established stock companies in the early stages of their businesses or relied on bank lending. In such cases, they had no choice but to draw on the power of investor managers such as Shibusawa Eiichi, who was a mastermind at establishing stock companies. In Shibusawa’s case, he also supported owner-managers through bank lending as the president of the Dai-Ichi Bank. Asano Soichiro and Furukawa Ichibei are typical examples of owner managers who

benefitted from Shibusawa's help.

As an investor manager, Shibusawa also focused on entrepreneurial education and established and supported the development of many institutes of higher learning, including the Tokyo Higher Commercial School (now Hitotsubashi University). Since the latter half of the Meiji Period, graduates of the Tokyo Higher Commercial School joined Mitsui & Co., Ltd. and many other large companies in Japan and grew into active salaried managers¹⁵. In this case, the mechanism functioned in which investor managers support the supply source of salaried managers.

The key to making the industrialization of a latecomer country successful is finding ways to utilize human resources and funds, which are scarce resources. Looking back on Japan's industrialization process, a big component of human resource utilization was the fact that salaried managers were given opportunities to play active roles. In the process of achieving this, among the significant factors was that owner managers proactively hired salaried managers and investor managers supported the development of salaried managers. With regard to the utilization of funds, a key aspect was that salaried managers used the funds of owner managers for industrialization and investor managers employed society's money by introducing stock corporations in the early stages of their businesses (Shibusawa Eiichi also advanced the employment of society's money in the form of bank deposits). In the process of Japan's industrialization, complementary actions of the three types of entrepreneurs – owner managers, salaried managers, and investor managers – led to effective use of human capital and funds, which were scarce resources. The mechanism that functioned therein will likely be applicable to the industrialization of latecomer countries in general.

¹⁵ A joint study by the Shibusawa Eiichi Memorial Foundation and Hitotsubashi University is currently underway aimed at gaining insight into Shibusawa's contributions to human resource development.