History of Japanese Economic Thought

Lecture No. 3

Winter Semester, 2004

Haruhito Takeda

3. Joint-Stock Company and Shareholder

3 – 1 Concept of Corporation after WWII

①Management to put importance on employees

②Trinity of shareholder, top management and employee

- Weak shareholders' voice has roots in their weak proprietary rights. This is a traditional characteristic common to an occupational management entity, and for that reason, universal worldwide.
- Weak right of ownership, in accordance with the goal setting to emphasize the permanence of business, engineered a mechanism to recruit professional managements as well as to contain voices of kin/family being main people.
- Nevertheless, despite much emphasis on such matters, in the face of the joint-stock company system becoming widespread under modern economic development, didn't Japanese change their views of corporation and business ? What changed, and what survived? Let us review anew relationships between corporations and shareholders in the prewar Japan.

Kamekichi Takahashi's Argument: "Joint-Stock Company Is Ruinous to the State"

- Hidemasa Morikawa herewith stresses the unavoidableness of the professional management coming onstage;
- Tetsuji Okazaki herewith makes an assertion that Japanese corporations were under the governance by equity markets and took on the characteristics of Anglo-Saxon.

→What were such assessments, realities brought up, and views on joint-stock companies by Takahashi who criticized those realities as being "ruinous to the State"?

- Takahashi's contention = highhandedness of shareholders and executives (outside directors)

Kamekichi Takahashi, Joint-Stock Company Is Ruinous to the State, Banrikaku Shobo, 1930

- First Clause: Disorder of Corporate Management and Stalemate of Our Economy
- It is not little that today's stalemate of Japanese economy is attributable to defects of the system of joint-stock companies that are the vital main body managing that economy, and it's improvement is a part of the urgent needs of the moment. To think back, shortly after the Meiji Restoration, the nation, facing with a world's capitalistic economy to require large capital, had to gear itself toward the status, and the corporate business has since been practiced quickly and artificially by sacrificing quality to quantity, never developed on the foundation of preparatory economic conditions that had needed to mature for the sound corporate management . Naturally executives and shareholders and other societies have engaged in managing companies without being furnished with qualifications required to secure their sound development: Much corruption and decadence originated by animosity and ignorance on the part of executives and shareholders have brought results in eroding company operations, furthermore, in industrial ailments and failures. For example, to enumerate aspects of company operations in which corruption and decadence overlap, various points can be counted as in the below:

Problems Pointed Out

Sequel of Kamekichi Takahashi, *Joint-Stock Company Is Ruinous to the State*

- (1)Posture for business operation is haphazard and does not target on the so-called far-sighted prosperity of business.
- (2)Company finance is overwhelmed by sloppiness and financial foundation of business is extremely tenuous.
- (3) Fraud accounting and return of capital stride around overtly.
- (4)Business morale is lost and they get away with counterproductive risky management of business.
- (5)So significantly adverse are incapacity, corruption and injustice of executives that much of business is being exploited.
- (6) Highhandedness of shareholders in ad hocism, their esurient desire for high dividends to erode business foundation, which debilitates business seriously.

Sequel of Kamekichi Takahashi, *Joint-Stock Company Is Ruinous to the State*

To take a look at (1) in the above, for example. Most of our company operations forget about important facilities necessary to plan for a perpetual development of business, and end up consuming valuable capital—appropriable to such a planning—in the form of good dividends to shareholders, as described below :

- (I) Even in instances of high profits tentatively generated, in a shortsighted manner, they get used up as terribly good dividends for shareholders, instead of being reserved in preparation for expansions or difficulties in the future;
- (ii) Due to the maximization of present shareholders' dividends, without an adequate depreciation and with little savings for emergencies, companies' financial foundation becomes very tenuous;
- (iii) Business falls into ruin after a while inasmuch as expenditures to be applied to measures required for the future growth, such as research, replenishing new facilities resulting from culling out outdated ones, and cares for an efficient operation of all facilities, come out to be appropriated for dividends for shareholders.

Sequel of Kamekichi Takahashi, *Joint-Stock Company Is Ruinous to the State*

What are reasons for such ad hocism of business management?

- Fundamental causes are considered to be:
- (a) self-interest and highhandedness of big shareholders in ad hocism, and,
- (b) corruption of executives.
- These tow are the causes, and centered on which emerge various cross-sections pointed out in the foregoing (2) to (6). And the results of those corruption and decadence ultimately resolve in infestation of wrongful financial closing and abusive business finance.
- .... However, it may be <u>no exaggeration to say that if financial statements of each company of ours come to be scrutinized, probably 90% of those will turn out wrongful hiding financial deficiencies</u>.

Sequel of Kamekichi Takahashi, *Joint-Stock Company Is Ruinous to the State*

Presumably, the major directions of measures against those problems are:

- (1)Derived from development of capitalism
  - (A) Shift the management of businesses to the control of such large Zaibatsu as Mitsui and Mitsubishi so as to depend on their superb confidence and administrative management skills.
  - (B) Lean on highly capable confidence and administrative managerial staff of financial capitals by establishing the industrial control by financial operators.
- (2)Derived from social means, i.e. lawmaking regulations
  - (A) Establish detailed rules pertinent to the statement of accounts and depreciation, etc. to exclude room for evasive closing of books with adequate social scrutiny.
  - (B) Place an unlimited liability on executives, and charge their malfeasance with both bodily punishments and fines.

Sequel of Kamekichi Takahashi, *Joint-Stock Company Is Ruinous to the State*

(A) of (1) in the above is obvious because in actuality companies affiliated with large Zaibatsu are extremely little in the degree of corruption and decadence, thus having a significantly great confidence regarding this point; (B) of the same shall be eventually realized along with the establishment of an industrial governance by “financial capitals” in our country, but its level is highly limited in current Japan yet. With that, a reform relying on social means recently has come to gather attentions, albeit partial and hypothermal, in the capitalist class pertaining to the amendment issues of the commercial law at long last.

Kamekichi Takahashi' Argument: Joint-Stock Company is Ruinous to the State

- Hidemasa Morikawa herewith stresses the unavoidableness of the professional management coming onstage;
- Tetsuji Okazaki herewith makes an assertion that Japanese corporations were under the governance by equity markets and took on the characteristics of Anglo-Saxon.

→What were such assessments, realities brought up, and views on joint-stock companies by Takahashi who criticized those realities as being "ruinous to the State"?

- Takahashi's contention = highhandedness of shareholders and executives (outside directors)

As for his view on governance, he took it too far to insist that the governance through market was meaningful in the situation where function of market itself had problems and rules of market were not realized. On the other, isn't it an overevaluation of reality to emphasize coming of the professionals management on stage?

What are problems, and what sort of countermeasures are proposed?

- His viewpoint that corporations should be operated from a long-range standpoint is common to the prior assertion, in which case;
- ① He was negative about governance by market;
- ② His requests for monitoring of holding companies and financial organs,
- ③And for disclosure and unlimited liabilities of executives may have been realistic countermeasures in the face of actual condition showing a deficiency in discipline.

What conditions were banks in?

- There were books published on how to select banks: Implication of such times?
- Could banks ever play a monitoring role?

Toyozo Nitta, *Judge Banks*, Daido Shoin, 1930

- (1) Our nation bore a grave economic blemish in the settlement of the European war, and, in no time for recovery, fell victim to the big earthquake disaster unparalleled in history, which exposed her to an utter economic predicament. A series of bankruptcies of such large companies and stores as Takada Shokai and Suzuki Shoten are well remembered by populace.
- (2) On the other hand, as for banks constituting nerve center of the business world, not negligible number of them has become too weak to put up with economic difficulties attributable to their own management status in a cover-the-loopholes style in addition to banking system's deficiency per se; And finally in the spring of 1927, prompting an unprecedented banking turmoil, numerous number of big and small banks came to either an operational suspension or closing.

Toyozo Nitta, *Judge Banks*, Daido Shoin, 1930

- Banks' operational suspension and closing necessarily raise serious social problems as demonstrated by many tragic articles in general-news pages of newspapers. Depositors can't help but get crazy when their precious thing that has been put away by working hard with unceasing effort disappears at a whack. Weren't there tragic articles every day last year when the banking turmoil incurred? Truly that was a serous social problem, which we should try not to repeat again in the future. So a new Banking Law was promulgated as the law number 21 in March 1927, and which led banks to making variety of arrangements among themselves. But can this sort of thing make people feel at ease? If anything, depositors ought to make their way of choosing banks more rationale, and <u>they can do no better than avoid deposits with banks of questionable contents.</u>

Toyozo Nitta, *Judge Banks*, Daido Shoin, 1930

- Making a deposit with a bank, it is quite questionable whether a depositor exactly selects a bank itself. If anything, a criterion sometimes seems the size of its building, or the distance to/from it, or, at the farthest, the scale of its capital. Some <u>greedy depositors look for banks that offer a high interest rate without knowing about losing his original principle</u>. Such irrational ways of choice not only makes it impossible after all to distinguish good from bad about complicated banks, but are also dangerous indeed.

What conditions were banks in?

There were books published on how to select banks: Implication of such times? Could banks ever play a monitoring role?

→There were problems about unwholesomeness of bank management.

- Like this, instability of these companies was emphasized in general, and moreover, unwholesomeness of their management was seen as a problem. While permanence of corporations was considered ideal, a realistic issue lied in diremption from that. Additionally, shareholders were grasped to be those who treated corporations as the entities to provide price advance of stocks and high dividends.

Companies and Shareholders Viewed from Cases

- Nonetheless, aren’t there realities different from actual conditions of these corporations?
- Onoda Cement and Nagoya Electric Light: Both started business as vocational aid for warrior class.
- For that reason, they had common characteristics that capital investors had strong consciousness to conserve assets, and that sense of unity was strong among shareholders.
- It is known that severe motions of objection arouse to the managements those companies’ from their shareholders toward the end of Meiji Period.

Case of Onoda

From *100-Year History of Onoda Cement in Manuscript Work,* (current Taiheiyo Cement)

- Execution of capital reduction and conversion of corporate bond

... To an extraordinary general meeting of shareholders held on Nov. 5, 36th yr. of Meiji, the board of directors proposed a reconstruction plan, as bottom line of its longstanding management improvement measures, centering on the liquidation of nonperforming assets by capital reduction and redemption of debt-loan corporate bond, i.e., the issuance of the new corporate bond for converting to lower interest rate. ...Regarding this proposal, the meeting decided that, owing to the shareholders' request, a review panel of 5 members was to thoroughly study the proposal and to weigh the pros and cons. ...On the following day of the 6th, the general meeting being held consecutively adopted the original plan after receiving a report from the panel on each item proposed on the prior day, which said: "The survey by the panel members jointly with the authorities concerned has found the proposal appropriate and hence certifies it to be adopted in this meeting." But, regarding a condition on issuing the corporate bond, the resolution modified its annual rate of interest from "less than 8 %" to "7 .5%, plus 25/1000 of the interest rate as annual handling charge."

Case of Onoda

From *100-Year History of Onoda Cement in Manuscript Work,* (current Taiheiyo Cement)

- However, this reconstruction measure could not exert an enough persuasive force to some of the shareholders. Even at the general meeting of Nov. 5, a part of shareholders gave opinions opposing to the reduction of capital with the following reasons:

①That would lose confidence in the company; ②The capital reduction, i.e., conversion of stock certificates, costs money; ③If issuing the new corporate bond worth ¥500,000 is necessary even after the capital reduction, satisfactory dividends for shareholders cannot be expected into the future.

- Among such opinions, some were based on a misunderstanding due to an inadequate explanation on the proposal. But all in all, in addition to the background that various reconstruction plans since 1901 failed to bear fruits continuing to provide no dividend, there existed a skepticism: "As per Noble Mori's appointment, present executives Messrs. Kawakita and Murata were assigned to a job of sorting out old debt, and after its completion, resumed their executive duties. Are their surveys and dispositions accurate and unmistakable?"

Case of Onoda

From *100-Year History of Onoda Cement in Manuscript Work,* (current Taiheiyo Cement)

- With that, having passed the original proposal including the plan on capital reduction, the general meeting of Nov. 6 approved the following collateral proposal presented by the panel members that accepted "a proposition on setting up a research committee" submitted by Beppu et al. :
- "Upon reducing capital and soliciting bond, the company is expected to establish its marketing policies firmly and to distribute profits adequately. If its methods stay the same as before, adopting the original proposal would not guarantee profits into the future. For the purpose of sorting out the company operation, a research committee comprised of 5 persons should be installed, and that should implement research agenda by the nest general meeting (i.e. 37th ordinary meeting of shareholders in Jan. 37the yr. of Meiji), and should also make a report on agenda to be implemented at the same occasion."

Case of Onoda

From *100-Year History of Onoda Cement in Manuscript Work,* (current Taiheiyo Cement)

- After the discussion for about 3 months, the research committee submitted the following report to the ordinary meeting on Jan. 30, 37th yr.:
- 1) Head office's sales of cement is possible including the prior and existing contracts such as a construction of Osaka port; Abolish direct sales and leave entirely up to Mitsui Bussan Partnership Co. ...;
- 3)Various expenses required for the head office should be strictly cut back to the standard set up by the committee, on which base business ought to be operated...;
- 10)All wooden boats possessed by the head office should be sold out;
- 11)Valuable securities should be sold out opting timing;
- 12)Numerous engineering works are possible, and which ought to be done though competitive bids.

Case of Onoda

From *100-Year History of Onoda Cement in Manuscript Work,* (current Taiheiyo Cement)

- Points of the report were ①consignment of sale to Mitsui Bussan, ②reduction of expenses based on making a standard budget, ③implementation of straight-line depreciation, ④calling on mechanical engineers, ⑤disposition of disused assets. Focal points among those were ① and ②.

"Standard budget" was made to be kept "in executives' hands" for soliciting their attention, cut back on useless expenses and return the operation to health, and which contained detailed explanations on each expense item. This budget was intended to achieve an expense cut back of ¥80,000, or 24%, from the actual figure in the first half of the 36th yr. without changing the production volume, indicating a rather drastic reform plan. ...

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

Swelling of Debt

- A large amount of investment in fixed equipments, coupled with the acquisition of Tokai Electricity and Nagoya Electric Power, came to put heavy financial pressure on Nagoya Electric Light.
- → With a resolution at the extraordinary meeting of shareholders in July, 41st yr. of Meiji, the company, having settled a foundation mortgage based on the factory mortgage law, had ¥300,000 on loan from Meiji Insurance and ¥200,00 from Tokyo Marine, or, ¥500,000 in total. With this fund, the company repaid a small loan of ¥120,000 from a local bank, distributed ¥135,000 as the dividend for the first half of 41st yr., and put the balance of ¥250,000 into an engineering work of Nagara-river electric power station.
- ... A year later, the company again borrowed ¥600,000, another ¥600,000 and ¥300,000 from Meiji Insurance, Tokyo Marine and newly Meiji Fire, respectively, or, ¥1.5 million in total, and repaid ¥500,000 loaned in July, 41st yr.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

(but) Due to an increasing fund requirement, not only the debt repayment made no progress, but also the level of dependence on borrowing enhanced all the more as trade notes payable rapidly increased in 44th yr. of Meiji. Though initial lenders were not known, at the end of Mar. 45th yr. the company worked out a loan of ¥2.1 million from Jyugo Bank with an annual interest at 6.5%.

- This loan, although in the form of promissory note for settlement within a year, was extended every 6 months after the time-limit for payment (interest rate at 7.634% from 2nd yr. of Taisho), and a mere ¥600,000 was repaid in Sept. 2nd yr. of Taisho.
- Because of this situation, the company, in order to straighten its loan at ¥1.8 million in total, including one from Meiji Life Insurance, and ¥1.5 million as the remaining amount of trade notes payable to Jyugo Bank, and so on, had ¥4 million on new loan from Teiyu Bank at the end of Mar. 3rd yr. of Taisho with conditions of 2-year time limit and an annual interest rate of 7.75%. While the past debts were repaid and straitened, an increase in the burden of interest had to be accepted in hindsight.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

- →Gravity of interest burden went on increasing.
- In addition, being forced to pass most of its net profit on to dividend, the company not only had no leeway for financial fund to repay debt loan, but also lapsed into a severe financial situation that was not anywhere near capable to enrich an internal reserve because from 44th yr. of Meiji, as described later, it had to put effort into maintaining the rate of dividend by surrendering the allotment supplement money under shareholders' demand.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

Shareholders' Revolt

- In the face of increasing burden of fund attendant of improving electric power supply, the rate of equity return went down from 14% in the first half of 39th yr. of Meiji to 12% in the same period of 41st yr.. And the stock (face value at ¥50) that was priced over ¥280 in Jan., 40th yr. after Japanese-Russo War plunged to ¥70-to-¥60-something partly due to the depression's effect. Accordingly, from among shareholders came out those who demanded a clarification of the management responsibility of Nagoya Electric Light's executives. They grouped themselves as Reform Society and showed moves to press the executives hard through shareholders meetings, etc., while in rivalry with them were some other shareholders organized as Federation to support the same executives, thus turning to a leadership struggle between two cliques of shareholders.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

Under these situations, on Aug. 7, 41st yr. [1908], Naotatsu Hirai, ex-employee of Nagoya Electric Light and share-shop attendant then, filed a lawsuit applying for annulment of the approval on a debt of ¥500,000 loan that was resolved at the extraordinary meeting of shareholders on Jul. 9. In this proceeding, the plaintiff's claim was approved in the first and second trials, but the supreme court finally ruled in favor of Nagoya Electric Light in Oct. 42nd yr..

- In such occasions, however, there happened a scandal that an employee of the company's spent company expense for private usage, which aroused shareholders' mistrust even further. Early Oct. 41st yr., 86 shareholders applied for the appointment of inspectors to survey the company's business conditions during Jul. 36th yr. through Jun. 41sr yr. with Nagoya District Court. Specific request was made to look into 13 items that included an increase in temporary payments pertaining to the engineering work of Nagara-river electric power station mentioned earlier. To this, providing the concrete explanation, the company insisted that no appointment of inspectors was necessary, which was rejected by both Nagoya District Court and Nagoya Court of Appeal. The scrutiny of the company's books, etc. started on Dec. 25, 41st yr. by the three inspectors who were Tsumugu Yada, Mitsui Bank's Nagoya branch manager, Toranosuke Okita and Yutaka Yamada, both attorneys at law.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

- The result of the inspection conducted over 3 months was only explained verbally to the applicants' delegate without being disclosed to the public, but according to *History of Nagoya Electric Light Co. Ltd. in Manuscript Work*:

"The report contained the following record: There is no trace of disturbance in the corporate assets, nor is there found any evidence of wrong conduct run by the executives and others, and further, no fact has been detected at all for them to have had caused losses to the company in collusion with merchants; in short, we cannot say that there has been any blemish in statute and honor in managing the company. Nonetheless, the executives simply have dropped anchor with their focus on avoiding infringement of shareholders' profits, and it is regrettable that no clear evidence can be found with respect to endeavors they have made to their maximum extent so as to enhance shareholders' profits."

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

Participation of Momosuke Fukuzawa in Management

- Around the time the inspectors' work was in progress examining the financial standing, an acquisition of stocks was proceeding in a large scale outside the company. It was a buyout by Momosuke Fukuzawa who acquired 5,390 shares by the end of the first half of 42nd yr. of Meiji, and came to be the largest shareholder with his ownership of 10,020 pieces by the same period of the following year.
- .... Coupled with Yada's advice, Nagoya Electric Light made a recommendation for major shareholder Momosuke Fukuzawa to assume adviser in July-end, 42nd yr., and further, with a change of the article of incorporation at an extraordinary general meeting of shareholders to have created a position of executive councilor, the company requested him to accept office thereof (assumed in Oct. the same year). Fukuzawa made director at the annual meeting of shareholders held in Jan. 43rd yr., and in May, took office of managing director succeeding Gisuke Saji who retired. In about one year since the start of acquisition, he came to take up a post that allowed a decisive influence on managing Nagoya Electric Light.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

- **While Fukuzawa's coming on the stage built up expectations of shareholders in the league of Reform Society, as mentioned earlier, backlash was strong from those on the side of Federation.**
- **Antagonism between the two parties erupted at once in the extraordinary general meeting of shareholders of Aug. 26, 3 months after Fukuzawa assumed managing director. The meeting, where various issues pertaining to problems on the company's merger were discussed, resulted in lasting 11 hours since 1 o'clock in the afternoon.**
- **Although there was no particular disagreement on the company's merger agendum, a great deal of pros and cons were presented regarding a proposal to increase the number of directors and auditors, prescribed in the article of incorporation, from traditional 7 and 5, respectively, newly to 10 and 7, respectively: This increase of the executive head-count was taken to mean that of Fukuzawa-related "new members".**
- **Accordingly, the group of shareholders, welcoming Fukuzawa and "new members" and holding up a hope for a renewed growth of Nagoya Electric Light, made efforts to enact the proposal by organizing a new group named Denyukai, while, as if to hit back, those with the ex-Federation newly formed Aidenkai to have asserted, "It involves a risk of destabilizing the company's foundation to readily allow many new members to be added to executives and to commit the company's management to them."**

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

- As it is said that both groups developed a scheme to draw more people from the other clique by installing offices at various spots in the city, the rivalry between the two came into the open from a good while before the start of the general meeting. From a week before the meeting, top echelons of both parties busily engaged in each works sparing little time for sleep, even bringing about such a confusing situation as some shareholders putting their letters of proxy into both cliques' hands.
- Anxious about the state of affairs, Nagoya City's mayor Jyuzaburo Kato, Nagoya Chamber of Commerce's vice chairman Tominosuke Kadono and Mitsui Bank's branch manager Yada ventured out on a mediation from the day before the meeting to open the door to compromise between the two parties, and continued the consultation from 6 a.m. of the very day. But since both were preoccupied with firm attitudes, no middle ground was found even at 9 o'clock when the subject meet was scheduled to commence.
- Subsequently, while the discussion was being continued on, as an extra time had to be spent for screening proxies of shareholders, it became past 1 p.m. that the general meeting was begun under the watch by police squad that was deployed on the alert for unexpected turbulences.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

The general meeting first adopted the tow agenda regarding the company's merger with Nagoya Electric Power and the disposition of marginal gain in association with this merger, and moved on to the deliberation on modifying the article of incorporation with respect to increasing the number of executives.

- **As for this agendum, Aidenkai proposed a motion that the number of directors within 10 in the original proposal be changed to 8, and that the number of auditors within 7 be changed to 6, and the meeting proceeded to a final vote.**
- **Mayor Kato and Mitsui Bank's branch manager Yada, who had been sounding out a way to compromise for the two groups, feared that an outcome of the poll would lead the two to a breakoff, tentatively adjurned the meeting and tried to persuade repeatedly.**
- **This effort brought about an agreement for both cliques to hold a council meeting, but which ended inconclusively, and the ballot counting came to be conducted. But in the wake of counting, an overlap of letters of proxy was found, and it was decided that an examination on them be done under witness attendants who were to be selected through an election. As to the number of executives scheduled to be increased, just one director ought to be elected in the meantime, with which the day's proceedings were concluded: It was 1:50 in the afternoon!**

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

The conclusion of the ballot examination session held on the date later than the following day of the general meeting was that the number of votes approving the original proposal and the one approving the amendment were exactly even. To that end, the final decision was entrusted to the chairman of the meeting Fukuzawa, managing director, in accordance with a provision in the article of incorporation.

- But Fukuzawa did not exercise that authority and neither proposal was voted on in the end. The reason Fukuzwa dared to put off the decision was obviously to clear up a misunderstanding of the opposition faction and not to leave the source of trouble.
- Both parties accepted this arrangement and things calmed down. As for the pending issue of increasing the headcount of executives, another extraordinary general meeting of shareholders held on Nov.18 adopted a new proposal which was a middle course between the two cliques, i.e., directors within 9 and auditors within 6. On Nov. 18, one week after the event, Fukuzawa resigned from office of managing director to step back from the management of Nagoya Electric Light for the time being.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

In the background of the demand for a reform made by some of the company's shareholders lay the following reasons: a sluggish growth of accomplishments, an increase in burden of funds owing to the expansion of large-scale water power, and a sense of emergency caused by the foundation of Nagoya Electric Power.

- This was because, with its capital of ¥4.25 million well surpassing that of Nagoya Electric Light at ¥2.65, it was inevitable that Nagoya Electric Power was to present a severe competition involving reduction in power rate with the completion of its water-power development along Kiso-river.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

- Under this situation, Nagoya Electric Light employed a management policy to merge Nagoya Electric Power, and the latter was in a tough financial condition in terms of fund-raising for its water-power development due to the financial depression.
- Therefore Nagoya Electric Light's managing director Fukuzawa who embarked himself in the merger negotiation, under the agreements of Hiroshi Kanematsu, Jiro Katsura and Masaka Okuda from Nagoya Electric Power's side, began works to nail down specific ideas with relatively little effort.
- What presented much more difficulty than negotiations between the two companies was to persuade an opposing argument in Nagoya Electric Light. For, among shareholders of ex-warrior class and ex-Aichi Electric Light since the foundation of Nagoya Eclectic Light, there were some who banded together against this agenda. The reason for their objection was a concern that a rate of dividend of the company might decrease due to the merger.

Case of Nagoya Electric Light

From Chubu Electric Power Co., *History of Electric Power Industry in Central Japan, Vol.1*

Countermeasures that managing director Fukuzawa presented were: To deliver 2 shares of Nagoya Electric Power (face value of ¥50 and payment of ¥42.5) against 1 share of Nagoya Electric Light (face value of ¥50 and payment of ¥42.5), and to set aside most of the marginal gain of ¥2.125 million derived from this transaction for the preparation for dividend to the future.

- **That proposal was accepted, and the merger plan of the two companies was adopted smoothly at the general meeting of shareholders of Nagoya Electric Light, as mentioned earlier.**
- **With the merger, Nagoya Electric Light on Oct. 28, 43rd yr. of Meiji succeeded all rights and obligations of Nagoya Electric Power, and, at the same time, increased its capital by ¥2.5 million to the total of ¥7.75 million. Additionally, as per the approval in the aforementioned shareholders' meeting of Nov. 18, the number of executives was increased in way of having those from Nagoya Electric Power; Tominosuke Kadono, Hiroshi Kanematsu and Kozo Saito as directors, and Jiro Katsura and Kin･nosuke Jin･no as auditors, who joined the management team of Nagoya Electric Light. Kanematsu among them assumed position of managing director, succeeding Fukuzawa who stepped down from the same office a week after that, to bear responsibility of managing the company for a while.**

Significance of These Two Cases

- In both cases, with their request for the establishment of management-improvement programs looking to the medium and longer term, shareholders showed their maximum resistance including judicial means to apply for annulment of a general meeting, proved to engage deeply with corporations' subsistence through such voices.
- Moreover, the context of their interventions was not just a demand for higher dividends.

- Accordingly, although shareholders matter-of-factly exercised their right to speak conforming to the joint-stock company system since it was introduced, their say was not a simple request for dividend in a short-term perspective and was not incompatible with the concept of corporation calling on everlasting development of business activities.

From Meiji Period to Early Showa Period

- In a social background where those participating in the stock market were increasing among investors and corporations via a stock boom during the first World War, and in a short time lapse of some 20 years since these cases described in the foregoing, shareholders even turned out to be the subject of a critical discussion that claimed them to be ruinous to the State, and, rather, expectations on Zaibatsu conducting nonmarket monitoring came to be purported.
- It could be that during this lapse of time, shareholders' expectations about corporations changed.

- Chikage Hidaka's research on the decline of the English cotton industry:
- Deficiency in the international competitiveness due to padding of assets

  That is, to portray a corporation as a tree to grow money in short time.

  There might have been a similar tendency in undercurrent.
- It was not that the idea of shareholders' predominance was unacceptable to Japanese vision of corporations: It was in light of the indication about negative effects of this idea that a different framework of governance came to be considered ideal..