

**Management and Control in Small and Medium-sized
Enterprises: The Case of Private Limited Liability Companies
in Japan before World War II**

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1. Introduction

This paper focuses on the use of a specific type of legal business form – *yugen-gaisha*, a type of private limited liability companies (PLLCs) in Japan – before World War II and investigates how and why the PLLC form was used in relation with ownership, control and management.

PLLC is a type of legal forms of business that combines advantages of corporations such as legal personality and limited liability and those of partnerships such as the simple and flexible management structure and control power of shareholders. This type of legal business form is seen in many European countries, such as Germany (Gesellschaft mit beschränkter Haftung [GmbH]), France (Société à responsabilité limitée [SARL]) and the United Kingdom (private companies), and became popular in those countries. Later, the United States also introduced this type of legal form, limited liability company [LLC]. Japan also introduced this type of legal form (*yugen-gaisha*) in 1940 and after that their numbers increased sharply, mainly because many small and medium-sized enterprises started to use this form.

But why did PLLCs become popular in these countries? Guinnane *et al.* (2007) argued that it was because the PLLC form has both advantages of business corporations and of partnerships and thus small and medium-sized enterprises preferred it as an intermediate choice. There may be some other explanations (See Allen and Kraakman, 2003). For example, partners of a partnership wanted to limit the scope of responsibility and thus needed a legal form in which all of the partners are protected by the limited liability. Another explanation may be that the PLLC form was suitable for direct financing, since new shareholders (partners) are protected by limited liability.

This paper is an attempt to tackle the above question by examining the case of Japan. Japan is an interesting case to consider this question, since the expansion of Japanese PLLC was very rapid, as is shown later. Moreover, it had achieved rapid industrialization and had introduced completely new legal systems from Europe. So we can say that Japan is a suitable example to see how a legal form of business works without its own context.

In this paper I investigate why this new legal form became was used by people, and how it was actually used. By doing so, I will try to answer the question why the PLLC form became popular in Japan.

At first, I will use quantitative analysis based on the number of PLLCs and other legal forms (by using the result of Shimizu, 2012). Then I will conduct a qualitative analysis based on the materials published by two chambers of commerce and a trade association.

The conclusion of the paper is that the rapid expansion of PLLCs in Japan cannot be

explained by the argument of Guinnane *et al.* (2007). Rather, I argue that the rationalization and modernization of management – such as the integration of purchasing, production and sales, and the improvement of management systems – was the most important reason of why the PLLC form was expanded rapidly in Japan. The management was centralized to presidents and other directors and they conducted the rationalization and modernization of management. This conclusion implies that the management of small and medium-sized enterprises in 1940s was moving towards that of “modern business enterprises” (Chandler, 1977).

2. Decline in partnerships and rise of PLLCs

This section conducts a quantitative analysis of the use of legal forms of business in Japan before WWII using data provided in Shimizu (2012), and show how PLLCs expanded after its introduction in 1940 and how partnerships and limited partnerships declined even before the introduction of the PLLC form.

Shimizu (2012) examined changes in the number of Japanese companies and in Japanese legal business forms by examining National Tax Agency (NTA) data.¹

These data cover all organizations considered “companies” (*kaisha*) according to Japanese commercial law; the word “company” denotes a general category of for-profit incorporated legal entity²—including business corporations (*kabushiki-gaisha*), partnerships established under the Commercial Code (*goumei-gaisha*), limited partnerships established under the Commercial Code (*goushi-gaisha*), companies with limited liability (*yugen-gaisha*), and partnerships limited by shares (*kabushiki goshi-gaisha*)—virtually the same as the German *Kommanditgesellschaft auf Aktien* (KGaA) and France’s *Société en commandite par actions* in France (abolished in 1951).^{3 4}

==== Take in Figure 1 ====

¹ The data source is the *National Tax Agency Annual Statistics Report (Kokuzei-cho Tokei Nenpo-sho)*, the *Results of the Corporation Sample Survey (Kaisha Hyohon Chosa Kekka)*, and the compilation of the *Results of the Corporation Sample Survey* published as the 30-year commemoration edition in 1982 (*Kaisha Hyohon Chosa 30-kai Kinen Go*). See Shimizu (2012) for details.

² Not-for-profit legal entities such as cooperatives, religious organizations, and voluntary associations are excluded from the *kaisha* even though they sometimes engage in business activities. Moreover, unincorporated partnerships (*kumiai*) are not regarded as for-profit legal entities and are thus also excluded from the *kaisha*.

³ The *kaisha* also includes several specific types of legal forms, such as cooperative partnerships (*kyogyo-kumiai*), mutual companies (*sogo-gaisha*), and special purpose companies (*tokubetsu mokuteki gaisha*). Those types of legal form are excluded from the data used in this paper.

⁴ In 2006, Japanese corporate law was completely revised, and the *company with limited liability* was abolished. A new PLLC form, *limited liability company (godo-gaisha)*, was introduced.

====Take in Figure 2====

Figures 1 and 2 show the results. Figure 1 shows the rate of increase in the number of each legal form (i.e., corporation, partnership, limited partnership, and PLLC); partnerships limited by shares are not included, as they are too few. Figure 3 shows the component percentages of legal forms (based on the number of each form, not their aggregate capital value).

Those figures illustrate three important changes in relation to PLLCs and its alternatives, partnerships and limited partnerships: (1) an explosion in the number of PLLC after their introduction in 1940, (2) a rapid increase in partnerships and limited partnerships from around 1925 to 1931, a period of economic recession (3) a slowdown in increase of those two forms from 1931, and a decrease from 1936-37 to the end of World War II (see also Shimizu, 2012).

After around 1925, the number of partnerships and limited partnerships increased even though the economy was in recession. The peak was around 1931, after which the increase of those two forms slowed. After 1936 or 1937, their rates of increase became negative. After the introduction of the PLLC form in 1940 (through the Company with Limited Liability Act), their numbers increased sharply, and they had become one of the popular business forms by 1945.

It is noteworthy that those changes cannot be explained as the results of economic circumstances. The increase in partnerships and limited partnerships after 1925 occurred during a recession. In this period, Japan witnessed a series of events, such as the Great Kanto Earthquake in 1923, the Showa Financial Crisis in 1927, and the Great Depression of 1929; it was thus tough economically. The PLLC form was introduced and grew rapidly during the Second Sino-Japanese War (beginning in 1937) and the Pacific War, when real GNP was decreasing. This is another change that cannot be explained with reference to the contemporary economic situation.

3. Why did PLLC become popular in Japan after 1940?

(1) Industry rationalization movement and enterprise merger movement

The question we are considering is why PLLCs proliferated after its introduction in 1940. As I already mentioned, this cannot be explained by economic circumstances. Moreover, another obvious explanation – tax reduction – also cannot explain this expansion, since there was no important change regarding taxes for enterprises around 1940. If the tax reduction was the main purpose of using the PLLC form, there would be no decline of partnerships and limited partnerships since they were treated as basically the same according to Japan's tax law at that time (See Takahashi, 2009).⁵

⁵ The tax reduction purpose also cannot explain the increase of partnerships and limited partnerships. Takahashi (2009) reviewed the development of Japan's corporate tax law and indicated

Actually, one of the explicit reasons of this rapid expansion was so-called “Enterprise merger movement (*kigyo godo undo*) started from 1940. This movement was influenced by its predecessor, Industry rationalization movement (*sangyo gorika undo*) from 1930, so at first I provide the overview of those two movements and their impact on the rapid increase of PLLCs (the explanation in this section is based on Yui, 1964, Osawa, 1970, and Matsushima, 2008).

After the economic recessions in 1927 and 1929 (and the repeal of gold embargo in 1930), Industry rationalization movement started under the leadership of Japanese government (especially of the Ministry of Commerce and Industry). The purpose of this movement was to improve the efficiency of Japanese companies under the control of Japanese government.

In order to achieve this goal, Japanese government pushed the establishment of trade associations, such as industrial associations (*kogyo kumiai*) and commercial associations (*shogyo kumiai*). On the one hand, those associations worked as a cartel, which could control the volume of production of each member company (Also see Hashimoto, 1984, pp.363-366). Japanese government believed that production control could remove the cut-throat competition and thus could modernize the management of Japanese companies, especially of small and medium-sized enterprises. On the other hand, those trade associations worked as an integrated mechanism of purchasing, financing and quality control and streamlined the management of small and medium-sized enterprises.

In 1937, Second Sino-Japanese War was broken out, and Japanese government established the Revised Material Mobilization Plans (*kaitei busshi doin keikaku*). After that, the whole Japanese economy was under the control of the government, and the supply of raw materials was concentrated on companies that can produce military products efficiently (mainly big businesses). Thus, for small, inefficient companies that were not in military industries, it was really difficult to secure the supply of raw materials.

In this context, Japanese government started the Enterprise merger movement in 1940. The purpose of the movement was to integrate small enterprises (usually sole proprietors) and improve the efficiency of production. In addition, Japanese government also intended to move labor forces from non-military industries to military industries by those integrations. The raw materials were supplied to the merged companies under the control of the government.

Mergers of small enterprise were conducted by way of establishing a new company or a new trade association. The ministry of commerce and industry regarded the newly introduced legal

that a family business could reduce their tax by becoming a *kaisha* (including partnerships and limited partnerships) until around 1920, after which amendments to the Income Tax Act and to related laws and regulations made it difficult to reduce tax by becoming a *kaisha*. Moreover, the Income tax Law was amended in 1923 and 1926 to prevent tax evasion by establishing family enterprises.

form, i.e., the PLLC, form, as one of the most suitable forms for mergers (Osawa, 1970). ⁶The other form that the Ministry regarded the most suitable was industrial small association (*kogyo sho kumiai*), a trade association for small enterprises.

In some prefectures, the prefectural government decided that PLLC was the only suitable form for mergers, as was seen in the woolen fabric industry in Aichi Prefecture (Aichi Prefecture Joint Association of Woolen Manufacturers, 1940). Even though the most popular form of mergers was industrial small associations, many enterprises actually used PLLC. For example, in cotton and rayon fabric industry, 244 industry small associations, 83 PLLCs, 97 other entities were established by mergers (Osawa, 1970). In the rayon industry in Fukui prefecture, 131 industrial small associations, 106 PLLCs, 20 business corporations, 37 limited partnerships, 2 partnerships, 29 unincorporated partnerships, and 11 sole proprietors were established as the result of this merger movement (Fukui Prefecture, 1996)., Those numbers indicate that PLLC was regarded as one of common legal instruments for merger.

Thus we can say that the Enterprise merger movement had a big impact on the rapid expansion of PLLC in Japan. Then another question arises; was it the only reason of the explosion of PLLCs?

The answer is probably not, because of following two reasons. First, many PLLCs were established because of reasons other than the Enterprise merger movement. For example, according to the survey conducted by Nagoya Chamber of Commerce, only 3 companies out of 26 newly established PLLCs mentioned the merger movement as the reason of the establishment. Secondly, many enterprises selected industrial small associations as a way to organize themselves instead of PLLCs. It means that the PLLC form had its own advantages (as well as disadvantages) that affected the choice of legal form. Then we would say that those advantages contributed the expansion of PLLCs.

The next question is; why was the PLLC form preferred by small and medium-sized enterprises in Japan? In order to tackle this question, I consider two following related questions;

(1) Why did many enterprises choose PLLC to integrate themselves instead of industrial small association, which could give certain autonomy to each enterprise?

(2) Why did partnerships and limited partnerships decline even before the introduction of PLLC? In other words, why did small and medium-sized enterprises not prefer partnership or limited partnership even when they could not choose PLLC as their legal form?

⁶ See Asagi (1995) for the details of the process of introducing PLLC form. It is noteworthy that though the PLLC form was introduced in 1940, after the break out of Second Sino-Japanese War, discussions about introducing new legal business forms had begun in the late 1920s and had not associated with the industry rationalization movement nor the wartime mobilization.

As for the first question, one explicit reason was that the central and local governments promoted the PLLC form as a legal instrument for mergers of small and medium-sized enterprises (See, for example, Aichi Prefecture Joint Association of Woolen Manufacturers, 1940, Fukui Prefecture, 1996). It was also suggested that governments preferred the PLLC form because it was regarded as suitable for the integration and rationalization of management (Aichi Prefecture Joint Association of Woolen Manufacturers, 1940). Thus, one of the reasons why companies prefer the PLLC form may be that enterprises accepted the idea of the central and local governments that the PLLC form was suitable for the rationalization of management. In fact, as is shown in the next section, enterprises actually used the PLLC form as a way to integrate and rationalize the management.

Regarding the second question, one possible explanation was that the number of partnerships and limited partnerships decreased because of the increased mergers between partnerships and limited partnerships, caused by the industry rationalization movement. In relation to small and medium-sized enterprises, however, the focus of the industry rationalization movement was on organizing industrial or commercial associations, not on mergers and acquisitions of those enterprises (Osawa, 1970).

Moreover, the slowdown of the increase of partnerships and limited partnerships was basically not caused by the increase of their dissolution but by the slowdown of the new establishment of them. Figure 3 indicates the rate of new establishment and dissolution for all companies in Japan. From this figure, we can see that the rate of new establishment dropped sharply after 1931, though the change of the rate of dissolution was not big until 1936. By comparing this with Figure 1, we can confirm the above argument.

==== Take in Figure 3 ====

It must be also noted that in the period of 1931-1937, in which the increase of partnerships and limited partnerships was slowed and then the increasing rates became negative, the increasing rate of business corporations had remained positive (except for the year 1932) and the increase was accelerated as time advanced.

In order to focus on small enterprises, we have divided each legal company form into two types according to amount of capital: companies with capital of 100 thousand yen and more and those with capital of less than 100 thousand. Our data source was the Tables of Company Statistics (*Kaisha Tokei Hyo*) of the Ministry of Commerce and Industry.⁷ Though the data's coverage is narrower than that of the NTA statistics, the data contain more detail about the companies.

⁷ These data was drawn from the Japan Statistical Association (1988)

====Take in Figure 4====

Figure 4 indicates that the increase rate of small business corporations - business corporations with the capital of less than 100 thousand yen – had been positive and almost constant during the period of 1931-1937. On the other hand, the increase rate of small partnerships and small limited partnerships dropped rapidly and became negative in this period. It shows that not only the new establishment of companies was slowed down, but also the usefulness of the partnership form and the limited partnership form had decreased compared to the corporate form. In other words, enterprises regarded that those two forms were not so suitable for the rationalization of management.

In fact, when we focus on big companies in which the rationalization of management was more important, we found that the vast majority of those companies were business corporations. In 1930, there are 2,764 business corporations with the capital of more than one million yen, while there are only 118 partnerships and 82 limited partnerships in the same category. Moreover, in 1935 the number of such business corporations became 2,969, while the number of such partnership and limited partnerships had not changed (118 partnerships and 82 limited partnerships). This suggests that the partnership form and the limited partnership form were not so suitable for modern management (See Chandler, 1977).

When we consider the above discussions regarding two questions, that is, why did many enterprises choose PLLC for mergers and why did small and medium-sized enterprises not prefer partnership or limited partnership even when they could not choose PLLC as their legal form, I consider that the above suggests that many people regarded the PLLC form as the suitable form for the rationalization and modernization of management and thus people preferred this form. Partnerships and limited partnerships were not preferred because they were regarded as not suitable for the rationalization.

4.Management and Control in PLLCs

However, the question still remains; can we really say that the PLLC form was regarded as the suitable form for rationalization of management, that is, to improve the efficiency of purchasing, production, sales and other activities and thus people preferred it?

As I mentioned in the introduction, there are several other explanations regarding this question. One is the argument by Guinnane *et al.* (2007), that is, the PLLC form is preferable because has both advantages of business corporations and of partnerships. In other words, the PLLC form can avoid untimely dissolution and also can protect minority shareholders. Other explanations can be the utilization of limited liability by existing shareholders and direct financing.

One way to investigate which explanation is most plausible is to investigate how the PLLC form was actually used after its new establishment. If people used this form to rationalize and modernize the management, then we can say one of the reasons of using the PLLC form was to rationalize the management and that they believed that the PLLC form was suitable for that purpose (at least to some extent). We thus investigate the reality of the situation of the management of PLLCs by using following materials;

(a) The result of the survey of newly established PLLCs in Nagoya City that was conducted just after the introduction of PLLC, conducted by Nagoya Chamber of Commerce (Nagoya Chamber of Commerce, 1940)

(b) The result of the questionnaire survey of PLLCs that were established by mergers in Osaka City in 1941, conducted by Osaka Chamber of Commerce (Reported in the series of newspaper articles, in *Nihon Kogyo Shinbun*, Mar. 14-16, 1942)

(c) A handbook of mergers by establishing PLLC, which was published for small woolen manufacturers in Aichi Prefecture in 1940, by Aichi Prefecture Joint Association of Woolen Manufacturers (Aichi Prefecture Joint Association of Woolen Manufacturers, 1940)

I introduce the findings obtained from those materials in following subsections.

(a) Survey of newly established PLLCs in Nagoya City

The result was consisted of the result of the questionnaire survey of 26 new established PLLCs and detailed explanation of three cases.

According to the questionnaire survey, the number of shareholders (partners) is 10 or less than that in most companies (20 of 22 that responded.). Shareholders are mainly consists of owner family members (9 of 16 that responded) or the ex-owners of enterprises which participated in the merger (7 of 16). It must be noted that PLLCs in which most shareholders are family members were usually not established by mergers.

Purpose of the establishment were mergers (6 of 21 that responded), joint management(2), expansion of business(4), establishment of family-owned company(2) and so on. Only two companies indicated that they established PLLC because of the tax-related purpose.

In many companies, the reason of choosing PLLC was the simplicity of the establishing procedure (12 of 26 that responded). Three companies said that the reason was to utilize the limited liability. It means that for many companies utilizing limited liability is no the main purpose of choosing PLLC.

Moreover, there are usually two (7 of 23 that responded) or three (6) directors. Usually there is also one auditor (9) in those companies. The management of a company was mainly conducted by directors, that is, the management was delegated to a shareholder or a group of shareholders. In some companies, it was allowed to select directors from people who were not shareholders.

The brief explanation of the cases in the result was following:

Case A: A cloth printing company established by a merger between four enterprises in the same industry. All of the ex-owners (shareholders) were participating in the management as a director or an auditor. Production was concentrated on one factory and production facilities in other factories were disposed.

Case B: A retailing company of bedclothes established by a merger of small retailers, wholesalers, and producers. All of enterprises participated in the merger became a member of the retail chain. Two directors (President and Executive Director) were selected among shareholders and they supervise the whole management, but they also established four committees (supervising, purchasing, sales, and production) to help the management and to improve the efficiency of management.

Case C: A joint sales company of toys established by small retailers and wholesalers. Shareholders were ex-owners of toy retail or wholesale companies, and they select directors and directors select the president and managing directors. Those president and managing directors are responsible for the management.

The survey and the cases show that, in PLLCs, a shareholder or a small group of shareholders played the central role in management, even though all shareholders still retains certain rights to participate in management. Moreover, the management was engaging in the rationalization of management, such as integration of production (Case A, B), rationalization of sales (Case B, C), or improvement of management systems (Case B).

(b) Survey of Osaka Chamber of Commerce

The subject of the survey was PLLCs established by mergers in Osaka City. 322 out of 501 companies were responded. Among those 322 companies, 41 companies were excluded because they were not established by mergers.

According to the survey, the number of shareholders was less than 10 in 77.8% of those companies. The number of employees was less than 10 in 45.5% of those companies, 10 to 19 in 21.6%, and 20 or more in 30.7%. About 60%(59.3%) of the companies succeeded the whole facility of the enterprises that conducted the merger. In most companies, all or at least a part of employees of the enterprises that participated in the merger were employed by the new company (84.0%), and

about a half of those companies hired new employees. Many companies answered that their efficiency of management was good.

Even though this survey did not ask about the purpose of merger or the reason choosing PLLC, it indicates that the expansion of business was somehow achieved and efficiency was at least maintained. Though 60% of companies inherited the whole facility of the enterprises that conducted the merger, in 40% of the companies the restructuring of the facility was somehow conducted. When we consider this result along with the result of the survey conducted by Nagoya Chamber of Commerce, we can say that in many companies the rationalization of management was conducted.

Moreover, it is noteworthy that, even though about a half of the companies had less 10 employees, about 30% of the companies had 20 or more employees. When we consider enterprises with 20 or more employees as medium-sized enterprises, we understand that there were many medium-sized enterprises which were formed as the result of mergers. Since the management of medium-sized enterprises become more complex than that of small enterprises, those medium-sized PLLCs needed the rationalization of management.

(c) A handbook of mergers by establishing PLLC in Aichi Prefecture

Though this handbook only dealt with legal procedures of mergers using PLLCs, it tells us about underlying ideas of merger movement as well as the nature of mergers.

It explains those mergers “were to consolidate the facility, skills, labor forces and bookkeeping and rationalize the management” by establishing a PLLC. Moreover, it stressed the concept of “unified management,” which means the integration of the management of enterprises which participated in the merger.

Regarding the nature of mergers, it was assumed that all enterprises that participate in a merger are sole proprietors. Moreover, according to the model charter (certificate of formation), directors can be selected from people who are not shareholders.

In summary, PLLCs were established to integrate and rationalize the management. In PLLCs, management was centralized and conducted by directors who were selected from shareholders, even though shareholders had retained some rights to participate in management. The management of PLLCs was engaging in the rationalization of management – such as integration of production and sales, and the improvement of management systems. Even though professional managers were not seen in management, the possibility of hiring professional managers had already considered.

Those findings indicate that, at least in Japan, the PLLC form was used as a legal instrument to rationalize and modernize management.

This conclusion is related, but different, from the argument of Guinnane *et al.* (2007).

Guinnane *et al.*(2007)'s argument can be summarized in the following three points:

(1) The PLLC can usually continue operating without risking untimely dissolution; in a partnership, however, an unsatisfied partner can request the dissolution of the partnership or a refund of the money she or he contributed.

(2) The PLLC can protect minority shareholders by conferring the right to exit from the company or by requiring supermajority rule for important matters; this is difficult to do in corporations, however, since corporate law does not allow such wide flexibility regarding corporate charters.

(3) Corporations require the application of many rules and procedures to protect shareholders, producing complexity and high establishment and maintenance costs, whereas PLLCs can be established and maintained at relatively low costs.

Of the above explanations, the third is unique, being cost-related; the other two relate to PLLCs' substantial benefits. Thus I focus on the first and second explanations.

I consider the applicability of the above logic was limited in Japan because the first and second explanations are applicable to partnerships and limited partnerships as well as PLLCs in Japan. Japanese partnerships and limited partnerships (established under the Commercial Code) had a legal personality (i.e., were incorporated). Thus, a partnership could continue even when an unsatisfied partner wished to dissolve the partnership; such a partner could leave the partnership and/or request a refund. Moreover, partners had a right to exit the partnerships. Thus those partnerships and limited partnerships were still vulnerable; however, the risk of untimely dissolution was relatively low.

As for the PLLC form, its legal structure is basically very similar to that of business corporations. So shareholders were not permitted to leave the company or request refunds. However, it has a supermajority voting rule to protect shareholders. On important matters, a three-fourths majority was required, with the attendance of those with at least half of voting rights (as per the Company with Limited Liability Act, Art. 42). At that time, there was no such a rule in business corporations. In business corporations, a simple majority was enough, with the attendance of those with at least half of voting rights and half of the shareholders (as per the Commercial Code, amended in 1938, Art. 343). Moreover, the Company with Limited Liability Act allowed special treatment regarding voting rules: a limited liability company was allowed to introduce multiple voting shares.

In short, it is very difficult to distinguish partnership and limited partnerships from PLLCs in Japan from the standpoint of Guinnane *et al.* (2007). Thus it is very difficult to explain why

partnerships and limited partnership declined while PLLCs proliferated, as we saw in the Section 2.

Instead, I insist that the most important function of the PLLC form in Japan before World War II was that it allowed the centralization of management and thus the rationalization and modernization of management while maintaining the power of shareholders to participate in the management.

It may be also possible to consider PLLCs as an instrument to utilize limited liability and thus enhance the protection of existing shareholders. However, as is shown by the survey of Nagoya Chamber of Commerce, not so many companies regarded the limited liability as the important reason to use the PLLC form. Moreover, there was no need to restructure the management of the merged firm if only the limited liability was important, but in fact many enterprises actually conducted the restructuring. Thus I consider that the utilization of the limited liability was not the main reason of using PLLC.

Another possible explanation is financing. Even though it could be one of the reasons, the explanation about the merger movement indicates that the direct financing was not an important reason to merge. Moreover, it was often said that direct financing from shareholders was an important source of funding. However, most of PLLCs at that time had only ten shareholders or fewer. If PLLCs were used mainly for dealing with financial problems, this number would be larger. We thus consider that financial problems were less important.

5. Conclusion

The above discussions can be summarized as follows. In Japan before World War II, PLLCs were introduced and actually used as a legal instrument to rationalize and modernize the management, such as the integration of purchasing, production and sales, and the improvement of management systems. The management was centralized to presidents and other directors and they conducted the rationalization and modernization of management.

This conclusion implies that the management of small and medium-sized enterprises in 1940s was moving toward to that of “modern business enterprises” (Chandler, 1977), though they were not modern business enterprises. For example, we could not see professional managers in the management of those companies. However, we saw the centralized management as well as the possibility of selecting professional managers as directors.

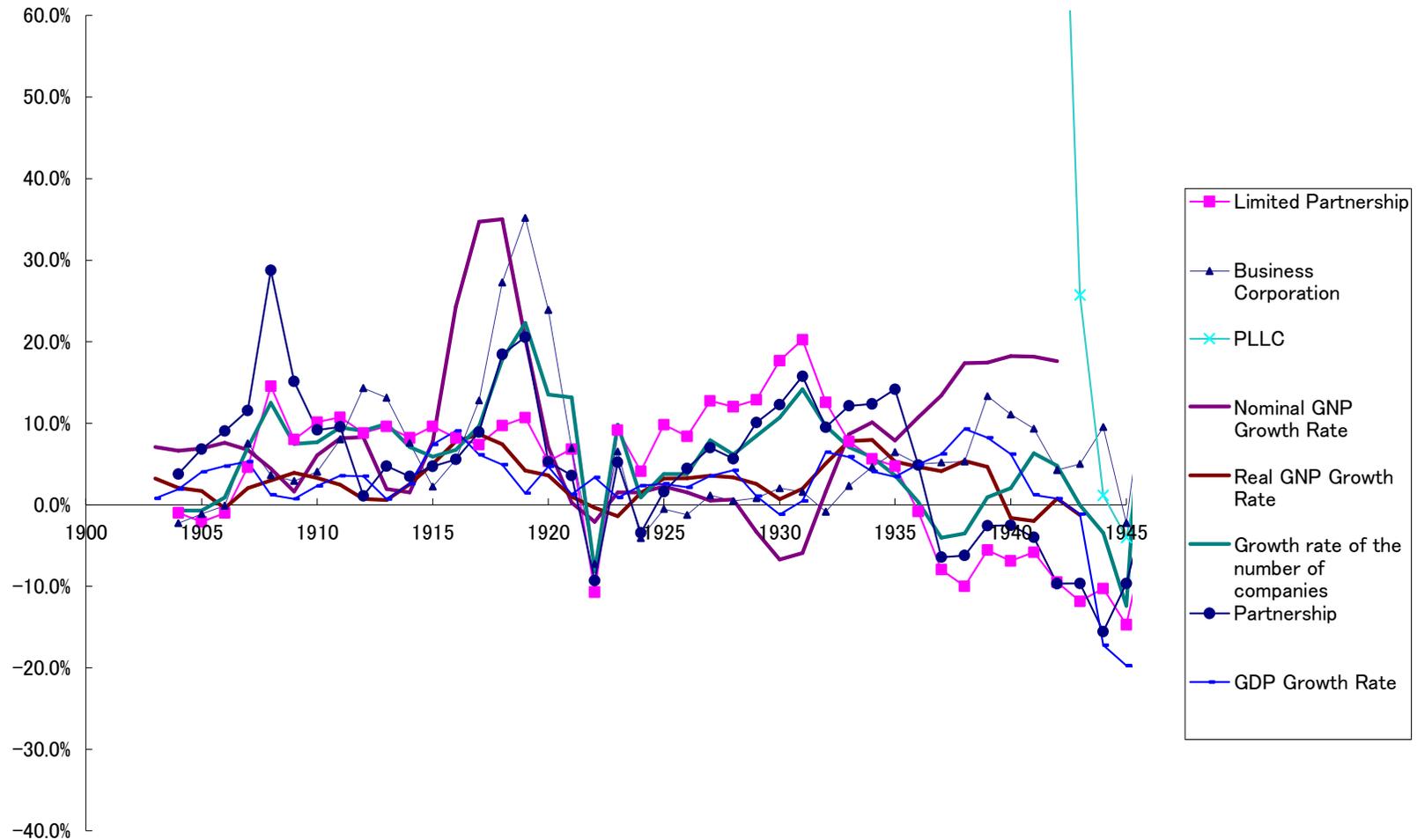
In order to substantiate this argument, however, we need in-depth case study of the actual situation of management in small and medium-sized enterprises before World War II. Moreover, we must investigate the actual situation of management in those companies after World War II and make a comparison to see whether the management of those companies were actually moving toward to that of “modern business enterprises.” Those points must be left for future research.

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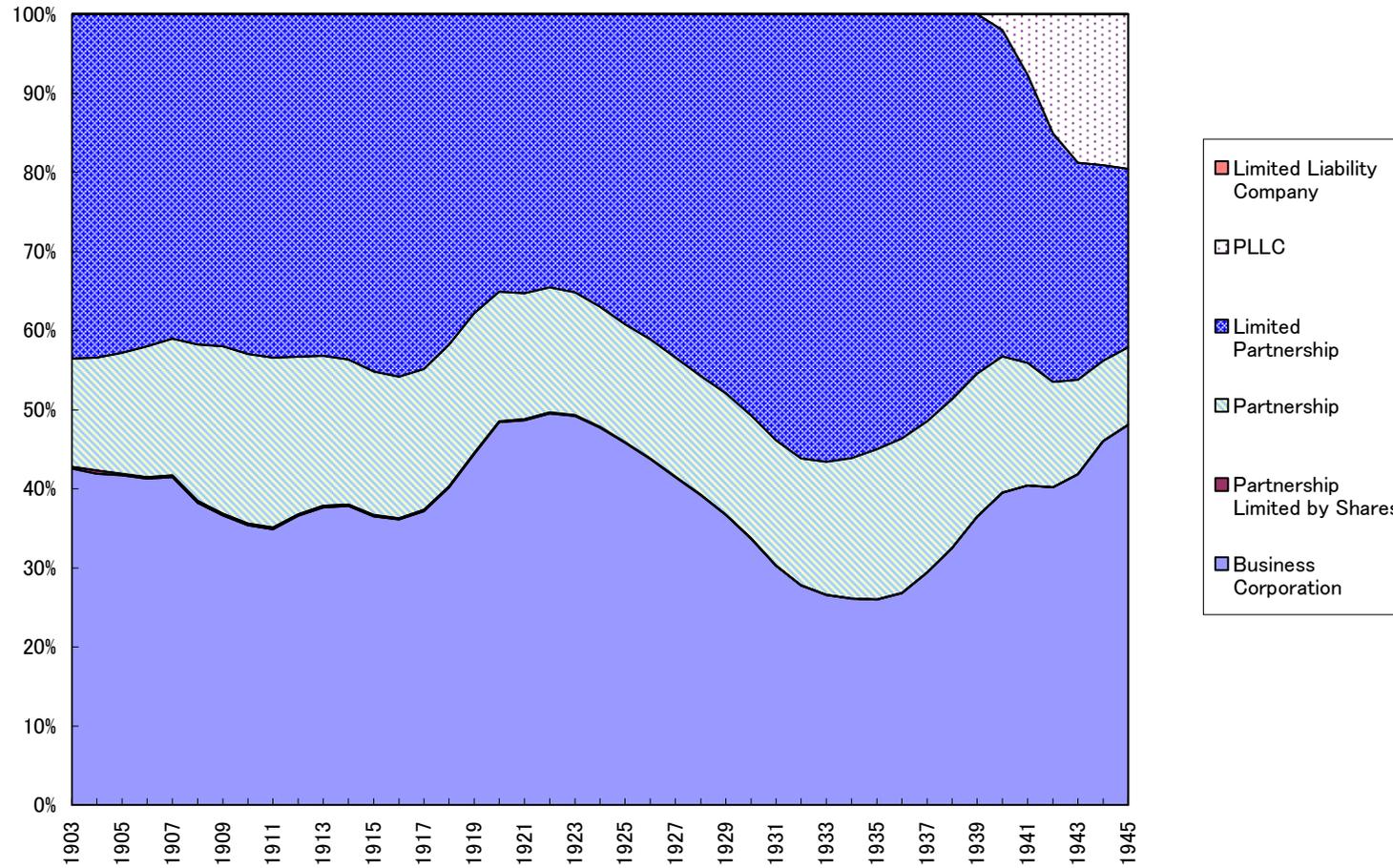
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Figure 1. Growth rate of legal forms (1903–1945)



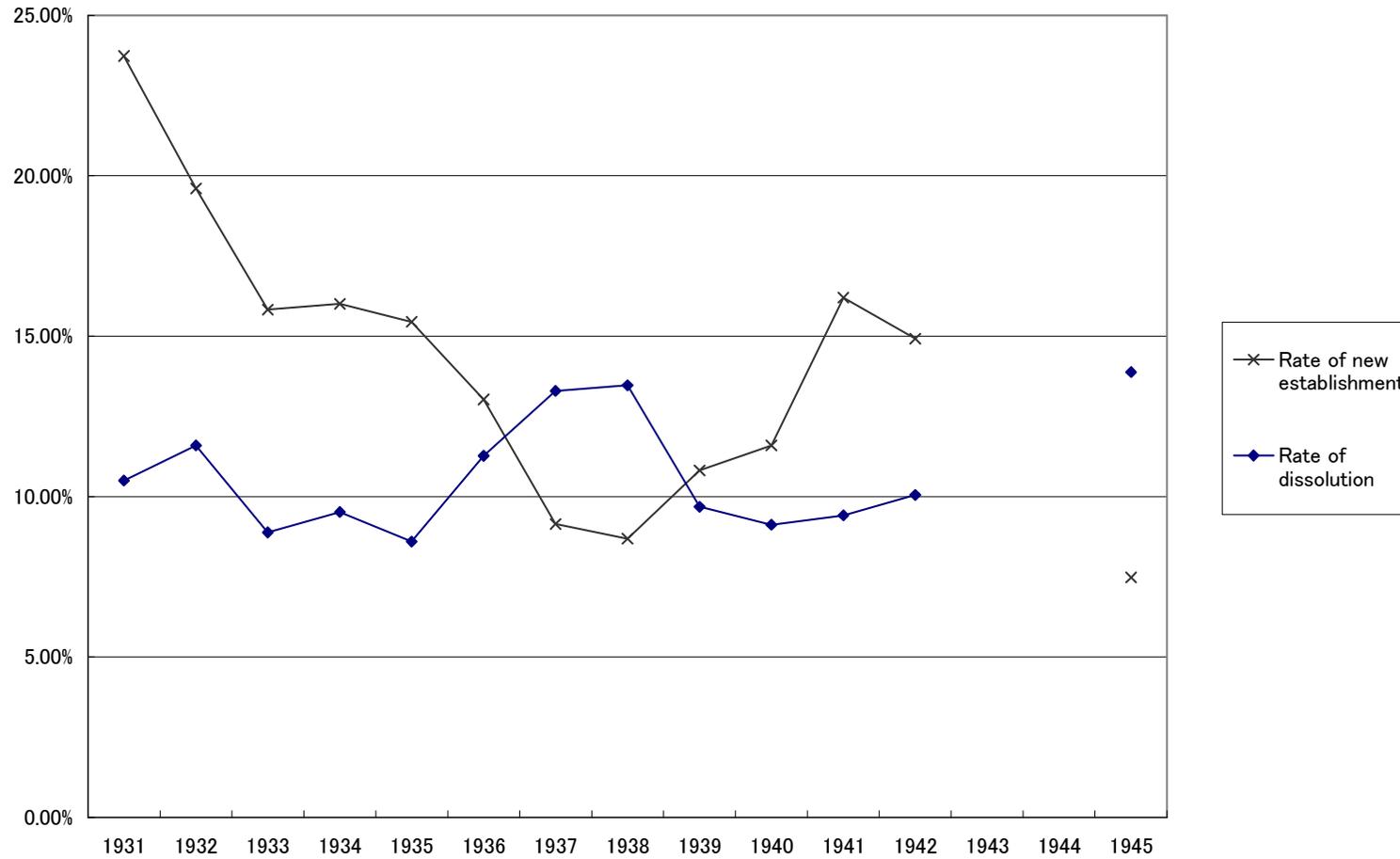
Source: National Tax Agency.

Figure 2. Component percentages of legal forms (1903–1945)



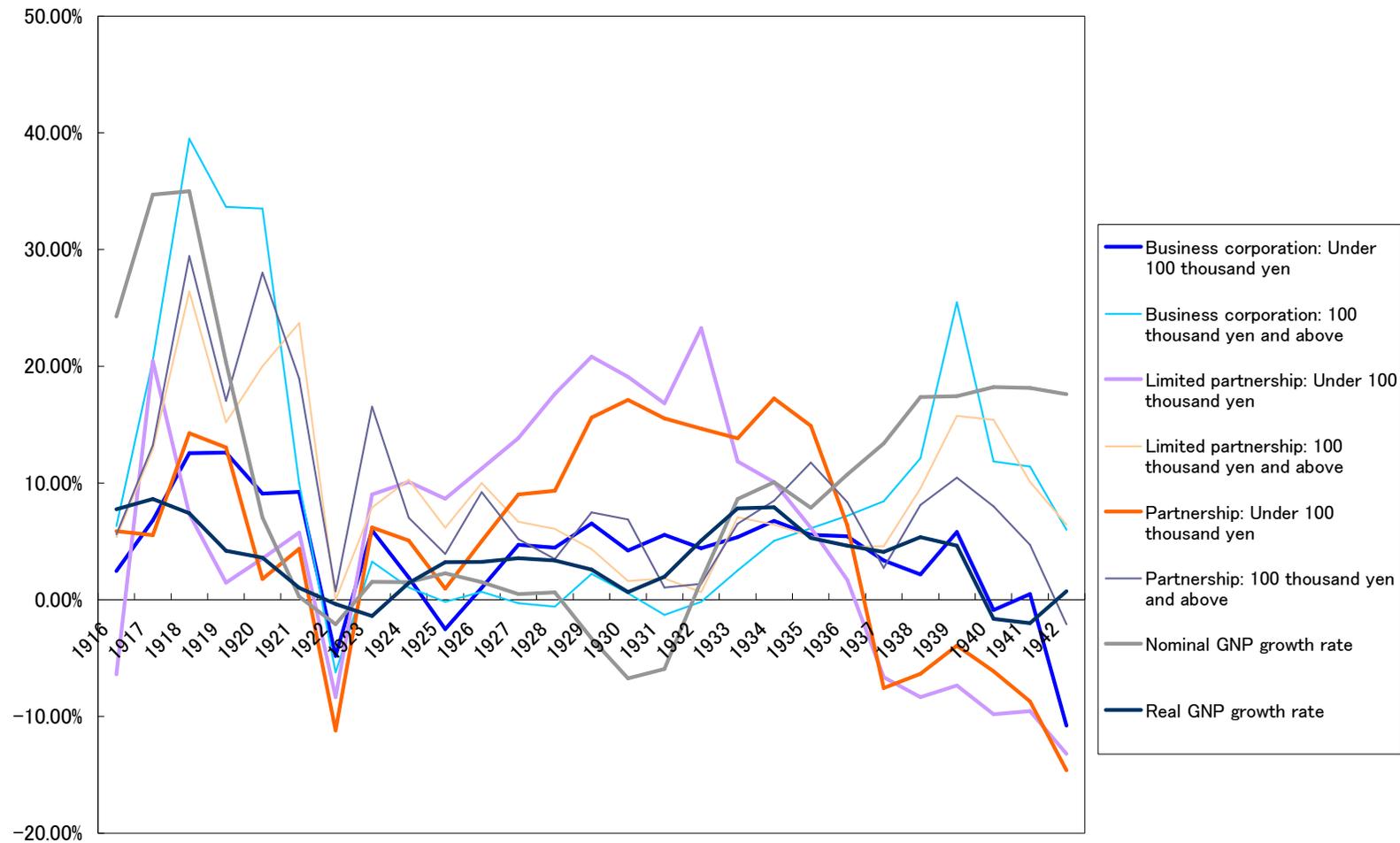
Source: National Tax Agency

Figure 3. Rates of new establishment and dissolution of companies (1903–1945)



Source: National Tax Agency

Figure 4. Growth rate of legal forms (1916–1942)



Source: Tables of Company Statistics (*Kaisha Tokei Hyo*), Ministry of Commerce and Industry