facturing productivity was laid in the 1840s by August Borsig (1804–1854), an early industrialist who pioneered corporate apprenticeships, mixing on-the-job experience and formal classwork. Universities – particularly technical universities – happily acted as both research agencies and recruiting grounds for local industries. By 1872, the University of Munich alone had more graduate research chemists than the whole of England. The Berlin Institute offered a two-year course in how to establish and manage factories. Germany began to found business schools at about the same time as the United States, in 1900. Boring-sounding industry groups such as the Association of German Engineers (1856) actually provided consulting advice and disseminated technical knowledge. German firms also pioneered the development of internal laboratories, and invested heavily in research and development even in such basic industries as coal, iron, and steel.

The second related area was the respect accorded to managers, who enjoyed the same high status as public-sector bureaucrats. (Lower-level managers were even called ‘private civil servants.’) In Britain, where even the most senior salaried executives were often referred to as ‘company servants,’ only a few managers were admitted to boards of directors by 1920. In Germany, salaried managers dominated supervisory boards. German companies also made a point of giving technicians managerial responsibility rather than just relying on generalists, as Americans tended to.

THE ZAIBATSU OF JAPAN

Japan’s version of organized capitalism had many similarities to Germany’s. Japan also leaped ahead in the 1870s – and Japan also embraced a conception of the company that combined up-
to-date professionalism with a pronounced and sometimes atavistic nationalism.

In 1868, the shogunate that had ruled the country for more than 250 years collapsed, and power reverted to the sixteen-year-old emperor Meiji – or rather to the officials and oligarchs who surrounded him. Some of the samurai who supported the restoration hoped that the emperor would cleanse the country of barbarians. Instead, the ruling oligarchs decided to open the country to the West as part of their ‘rich country, strong army’ policy. They invited more than 2,400 foreigners from twenty-three different countries to provide instruction in Western methods. Employment of foreign experts accounted for about 2 percent of government expenditure.²⁶

The state forced the samurai to shed their feudal ways and wear Western clothes. It also created business opportunities by selling state-owned factories for a song, introducing joint-stock-company laws, abolishing the guilds and other restrictions on occupational choice, and preaching that moneymaking was perfectly compatible with Shinto and Buddhist religious beliefs, as well as being downright patriotic. Many samurai reinvented themselves as businessmen, often starting companies with the compensation money they were given for giving up their military duties.

The young companies had the advantage of being able to learn from their predecessors’ mistakes. The growth was explosive. In 1886, nearly two-thirds of the yarn in Japan was imported; by 1902, it was virtually all home-produced; by the First World War, Japan accounted for a quarter of the world’s cotton-yarn exports. Japanese firms were particularly good at electrification. By 1920, half the power in Japanese factories came from electric motors, compared with less than a third in America and barely a quarter in Britain.
The government undoubtedly played a leading role in Japan’s great leap forward. The Ministry of Industry regarded its role as making up for ‘Japan’s deficiencies by swiftly seizing upon the strengths of the western industrial arts.’ It did so in all sorts of ways – by pouring money into infrastructure, establishing universities, directing business and credit toward companies, and establishing public companies as recipients of Western technology and models of Western business. Government investment usually exceeded private-sector investment until the First World War. It was a government official who introduced a venture capitalist to a university teacher who had the wild dream of building a power station. The result was the Tokyo Electric Light Company, the ancestor of Toshiba. Shibusawa Eiichi, who founded the Dai Ichi bank, which financed many of the original joint-stock companies, worked for a spell in the Ministry of Finance. Mitsui liked to compare itself to the British East India Company. Mitsubishi, Mitsui’s great rival, owed a great deal to government subsidies for shipping. In 1894, the firm repaid the favor by lending its ships to the military to wage war with China.

Mitsubishi was the model for the zaibatsu – the Japanese conglomerates (literally, ‘financial cliques’) that dominated business in the country until the Second World War (and were subsequently reborn as keiretsu). These conglomerates were a strange mixture of feudal dynasties, old-fashioned trading companies, government agencies, and modern corporations. At the heart of each zaibatsu sat a family-owned holding company that controlled a cluster of other firms through cross-shareholdings and interlocking directorates. Each cluster typically included at least one bank and insurance company as a conduit for public savings. Managers were typically recruited into the holding company from university. Thereafter, they spent the
whole of their lives within this extended family of companies.

The companies that made up each zaibatsu operated in a bewildering number of industries, but their lack of focus did not prevent them from being highly competitive. At its best, the zaibatsu structure allowed for great flexibility: businesses could specialize in particular markets, but also summon up economies of scale when they needed them. The groups were also kept in shape by the rivalry between them. By the end of the Second World War, the four biggest ones – Mitsui, Mitsubishi, Sumitomo, and Yasuda – controlled a quarter of the paid-in capital of Japanese firms. As in Germany, small firms still existed – according to the 1930 census, 30 percent of Japan’s manufacturing output came from factories with fewer than five workers – but the tone was set by the zaibatsu.

The zaibatsu were particularly successful in mixing family ownership with meritocratic management. The founding families were understandably nervous about the joint-stock concept, initially trying to keep control through special classes of shares, and then after those were banned in the 1890s, making arrangements so that groups of descendants could hold shares together (and banning them from selling them). Control of Mitsubishi alternated between two branches of the Iwasaki family. The founder’s brother insisted that ‘although this enterprise calls itself a company and has a company structure, in reality it is entirely a family enterprise.’ At Mitsui, ownership was split among five branches of the same family.

Yet, the same families were notably better than, say, the British at handing over day-to-day management to professionals. The tradition of hiring a professional manager (banto) to run the family business dated back to the eighteenth century. Leading Japanese industrial families also proved remarkably adept at transforming feudal loyalty into corporate loyalty:
Samurai who were willing to die for their masters became loyal company men who were willing to do anything for company success (and who were given lifetime employment in return). By the early 1930s, almost all the zaibatsu had handed over control of their management to well-trained professionals. A 1924 survey of the 181 largest Japanese companies found that 64 percent of top executives held a college degree or equivalent, a higher proportion than in the United States at the time.29

In both Germany and Japan, the government’s habit of steering the economy in pursuit of national greatness reached an ugly zenith in the Second World War. One history nicely describes the Nazi approach to business, where small companies were pushed into a limited number of huge industrial groups in the service of the national business machine, as ‘Listian economics gone berserk.’30 The zaibatsu looked like feudal relics to Douglas MacArthur, who broke them up after the war. MacArthur had no doubt where to find the best model for the corporation: it was in the United States of Coca-Cola and General Motors.