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Small and medium-sized enterprises and their use of organizational forms in Japan after World War II

Takashi Shimizu


Pages 423-441 | Published online: 27 Aug 2019

Cite this article <https://doi.org/10.1080/17449359.2019.1659823>

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ABSTRACT

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By referring to discussions of legal scholars as well as statistical data, I found that several different factors affected this phenomenon: the trustworthiness of corporations, the cost of using the corporate form, and its usefulness for the modernization of management.

Q KEYWORDS: Corporations private limited liability companies organizational forms economic development small and medium-sized enterprises

Disclosure statement

No potential conflict of interest was reported by the author.

Data availability statement

The data that support the findings of this study are available from the corresponding author, Takashi Shimizu, upon reasonable request.

Notes

1. The corporate form here means a legal form of business which has the following

characteristics: (1) a separate legal entity, (2) a collegial body, (3) a delegating body, and (4) a separate jurisdiction. In the United States, the corporate form is the dominant form of business organization. In France, the corporate form is the dominant form of business organization.

2. Unincorporated firms are those firms that are not organized as corporations. In France, the number of unincorporated firms is about 2,000 million yen in 2010. In the United States, the number of unincorporated firms is about 2,000 million yen in 2010.

3. When the number of unincorporated firms is larger than that of incorporated firms, the number of unincorporated firms is larger than that of incorporated firms. In France, the number of unincorporated firms is about 2,000 million yen in 2010. In the United States, the number of unincorporated firms is about 2,000 million yen in 2010.



4. In Japanese, 'yugen' means 'limited,' and 'kaisha' means incorporated business entities, including partnership (under the Commercial Law), limited partnership (under the Commercial Law), corporations, and yugen kaisha. When we consider the pronunciation, it should be written as 'yugen-gaisha.' However, because Japanese people often use YK as an abbreviation of 'yugen kaisha' to express this form, in this paper I will use 'yugen kaisha' as the name of this form. See Hannah and Kasuya ([2016](#)) for details of the use of these words.

5. Nicholas ([2015](#)) presented similar figures from 1896 to 1939 based on a different data set, which was based on Tables of Company Statistics. Compared with Tax Statistics used in this study, Tables of Company Statistics reported more detailed data on companies, but Tax Statistics covered more companies. For the details of the data, see Shimizu ([2012](#)).

6. Nicholas ([2015](#)) pointed out that the increase in the number of PLLCs after 1940 did not cause a decrease in the number of corporations, and suggested this was because the PLLC appealed mostly to Japanese business owners who had previously chosen to organize as a limited or a general partnership. Though [Figure 4](#) supports his argument and thus the explanation is plausible for the situation before WWII, the situation after WWII cannot be explained by this. I will discuss this in the following sections.

7. According to this survey, the percentage of companies that disclosed their balance sheets was higher for larger corporations. Among corporations with capital of 2 to 20 million yen, it was about 20-30%. The percentage was more than 50% for those corporations with capital of more than 20 million yen. See Izawa ([1956](#)) for the details.

8. This number of companies in this category is low, and the response rate in this category is low. The shareholders' meeting is not held in this category, and that most shareholders do not participate in the meeting.

9. The number of companies present is low, and at the same time, the number of companies that wants to issue stock is low. The Articles of Incorporation are not issued.



10. Even in recent days we can see some attempts to prevent this 'abusive use' of the corporate form. For example, in 1990 the Commercial Code was amended and the regulation on the minimum capital amount (10 million yen for a corporation and 3 million yen for a PLLC) was introduced. The difference in the minimum capital amount between a corporation and a PLLC suggests that one of the purposes of the Amendment was to provide an incentive for SMEs to use the PLLC form. However, in the Amendment of Commercial Code in 1974 and the enactment of the Special Law on Audit Practices under Commercial Law, small corporations were exempt from some regulations and this might have encouraged the establishment of such small corporations. In this sense, the Japanese legislature's attitude toward small corporations was not consistent.

11. Moreover, it was customary for the owner-president of a small company to become a guarantor of the company's debt (see Ishii et al. [1961](#), for example). In such a case, the limited liability is almost useless – the owner has an obligation to repay the debt of the company anyway.

12. This ban was lifted by the amendment of the Commercial Code in 1966.

13. Hannah and Kasuya ([2016](#)) indicate the importance of the liberal flexibility for using organizational forms, and mention the fact that corporations could restrict the transfer of shares as one of the examples of that flexibility.

14. In 1949, the Small and Medium-Sized Enterprise Cooperatives Act was enacted to support such efforts.

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Additional information

Funding

This work was supported by JSPS KAKENHI Grant Number JPXXXXXXX. An earlier version of this paper was presented at the 2017 International Conference on Law and Society, the 21st Annual Congress of European Business History Association, and the 2017 Asian Law and Society Association Annual Meeting.

Notes on contributors

Takashi Shimizu

Takashi Shimizu is a Professor of the Department of Advanced Social and International Studies, Graduate School of Arts and Sciences, The University of Tokyo. Dr. Shimizu received his Ph.D., M.A., and B.A. in economics from The University of Tokyo. He has written a book and published several articles in journals including the International Journal of Production Economics, Benchmarking: An International Journal, International Journal of Services and Operation Management, International Journal of Business Innovation and Research, Japan Business History Review, and Organizational Science. His research interests are in business history, organization theory, corporate systems, and the interactions between legal systems and corporate behaviors.

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