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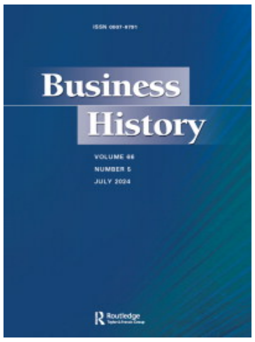

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Business groups and the 'big push' concept: Rethinking the dynamics of zaibatsu growth in Japan

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ABSTRACT

This study investigates the growth trajectory of the Japanese business group Sumitomo, challenging previous research that used the 'big push' concept to explain the expansion of Japanese business groups. Rather than relying on government assistance, as the big push concept suggests, Sumitomo successfully diversified into different business sectors by leveraging its existing resources and financial networks. This led to an unintentional but effective expansion into the finance, warehousing, and real estate sectors. Sumitomo's case underlines the importance of exploring additional context-specific factors in business growth, moving beyond the conventional application of the big push concept. The findings of this study will prompt future research to re-evaluate the growth patterns of business groups with minimal government aid, particularly in regions distant from government control, to foster a more nuanced understanding of a country's business landscape.

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1. Introduction

Recent research on business groups has presented a new framework for understanding the formation and growth of Japanese business groups that operated from the Meiji period to World War II, commonly referred to as zaibatsu. In their seminal work, Colpan et al. (2010) explored the development of zaibatsu in the context of the 'big push' concept proposed by Rosenstein-Rodan (1943).[1] The big push concept argues that balanced economic growth depends on the simultaneous development of multiple industries (Rosenstein-Rodan, 1943, p. 204). Originally, Rosenstein-Rodan's concept suggested that a government's concerted efforts, including planning, investment, and coordination, are instrumental in achieving this objective (Khanna & Yafeh, 2007, p. 359; Morck, 2010, p. 611; Rosenstein-Rodan, 1943, pp. 208–209). However, after examining the Japanese case, research on business groups revealed that governments do not always play a pivotal role in big push-like economic growth. Essentially, this research concluded that the Japanese government merely provided an initial impetus, while zaibatsu actively facilitated the big push in the Japanese economy (Colpan et al. 2010, p. 46; Morck & Nakamura, 2007a, pp. 551, 592).

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Based on these findings, the big push concept can be classified into two categories depending on the extent of government involvement. The traditional approach (Rosenstein-Rodan's original concept), which posits that the government assumes a leading role, is referred to as the 'state-run big push' or the 'state-led big push' (Morck & Nakamura, 2007a, pp. 543–544, 547, 548, 553, 588). The second approach involves the government providing an initial impetus, with business groups taking charge of the big push, and is referred to as the 'state-ignited big push' in this study. According to Colpan et al. (2010, p. 46), the government's extensive privatisation efforts enabled zaibatsu to thrive and ultimately become the driving force behind Japan's industrial development. Similarly, Morck and Nakamura (2007b) argued that the primary acquirers of privatised enterprises were the zaibatsu, specifically 'Mitsui, Mitsubishi, Sumitomo, and a few other zaibatsu,' seizing the opportunity to venture into new sectors (Morck & Nakamura, 2007b, p. 377). Consequently, these previous studies identified the acquisition of state-owned enterprises as the catalyst for zaibatsu development.[2]

However, this understanding is oversimplified; Colpan et al. (2010) and Morck and Nakamura (2007b) inadvertently erred by drawing generalisations from case studies that focused exclusively on a limited number of zaibatsu. Among the Japanese zaibatsu that were ordered to be dissolved by U.S. occupation forces after World War II, four were designated as particularly important (Hadley, 1973, p. 26). However, only two diversified their businesses through the privatisation of state-owned enterprises in the nineteenth century. The other two firms did not acquire state-owned enterprises and therefore, do not fit the state-ignited big push concept assumed by Colpan et al. (2010).[3] Nevertheless, they position Japanese zaibatsu as an example of state-ignited big push concept. This misconception stems from the preconceived notion that most major zaibatsu would have taken over state-owned enterprises.

To clarify the nature of zaibatsu, it is necessary to examine their growth based on a broad range of examples. Morikawa's (1992) analysis of zaibatsu identified other factors influencing zaibatsu growth apart from government assistance. Moreover, unlike other works, it did not focus on the two largest zaibatsu (Mitsui and Mitsubishi) rather on the third largest, Sumitomo. Morikawa discovered that entrepreneurial activities at the middle management level had an impact on zaibatsu growth. Specifically, he demonstrated instances where zaibatsu succeeded in diversifying into unrelated business fields without government assistance. Morikawa's analysis, therefore, proposes an alternative explanation for the development of zaibatsu that does not rely on the state-ignited big push concept. However, as detailed in Section 4 of this study, Morikawa may have placed excessive emphasis on entrepreneurship as the sole factor explaining the growth of specific zaibatsu without government assistance.

Building on Morikawa's (1992) findings, this study aims to reassess the existing understanding of zaibatsu growth. Like Morikawa, this study centres its investigation on the third-largest zaibatsu in Japan (Sumitomo), critically examining the conventional notion that Japanese zaibatsu serve as typical examples of the state-ignited big push concept (Colpan et al. 2010; Morck & Nakamura, 2007a).

This paper proceeds as follows. Section 2 begins with a review of the four main Japanese zaibatsu, showing that Sumitomo, the focus of this study, was the third-largest zaibatsu in Japan. Section 3 describes the archival materials used to examine Sumitomo's management. Sections 4 and 5 demonstrate how Sumitomo diversified into unrelated businesses without government assistance, particularly during the privatisation of state-owned enterprises. Section 6 summarises the findings and discusses their implications and potential areas for future research.

2. The leading Japanese zaibatsu

After World War II, the American General Headquarters of the Supreme Commander for the Allied Powers identified 10 business groups as either 'giant industrial zaibatsu' or 'giant banking zaibatsu' (Hadley, 1973, p. 26). Among these, four (Mitsui, Mitsubishi, Sumitomo, and Yasuda) were widely recognised as the most prominent zaibatsu in Japan (Hadley, 1973, p. 26). At the end of the war, the combined capital of these four zaibatsu accounted for approximately 25% of Japan's total economic wealth.

Table 1 presents the essential details of these four companies (Hadley, 1973, p. 57). This table clarifies why previous studies have mainly focused on Mitsui and Mitsubishi, as their total capital was larger than that of the others. However, Table 1 also illustrates the difficulty of discussing Japanese zaibatsu by focusing only on Mitsui and Mitsubishi. Previous studies that focused on the top two zaibatsu in terms of capital size overlooked the diversity of other zaibatsu in Japan.

A review of the industries in which these companies operated shows that Mitsui and Mitsubishi had the most capital in terms of shipping, machinery, and chemicals. In contrast, Sumitomo and Yasuda led in metalworking and banking, respectively. Therefore, focusing only on Mitsui and Mitsubishi may lead to overlooking the influence of zaibatsu in important sectors.

Admittedly, Mitsui and Mitsubishi are prime examples of the state-ignited big push concept, as Colpan et al. (2010) described. Mitsui's business originated in textiles, whereas Mitsubishi started in the shipping sector. Subsequently, both zaibatsu expanded their operations by acquiring state-owned enterprises (Shibagaki, 1968). Mitsui's acquisition of formerly state-owned coal mines gave it a competitive advantage in related sectors such as the chemical

Table 1. Paid-in capital of the four largest zaibatsu in 1946 (unit: Yen, %).

		Mitsui	Mitsubishi	Sumitomo	Yasuda	Total	Percentage of national total
Founding family		Mitsui	Iwasaki	Sumitomo	Yasuda		
Founding year		1673	1871	1590	1864		
Number of state-owned businesses acquired	Coal Mines	2	2	–	–		
	Gold Mines	–	2	–	–		
	Silver Mines	–	1	–	–		
	Spinning Mills	1	–	–	–		
	Silk Mills	1	–	–	–		
	Shipyards		1	–	–		
Consistency with Big Push Concept		Yes	Yes	No	No		
Paid-in Capital for Main Businesses	Banking	148,125	87,675	53,675	193,361	482,836	48.0
	Shipping	179,127	399,922	6,525	17,500	603,074	60.9
	Metal Industry	270,005	185,000	550,200	4,150	1,009,355	26.4
	Machine Industry	838,567	1,207,655	638,660	95,183	2,780,065	46.2
	Chemical Industry	566,169	187,455	167,850	9,080	930,554	31.4
Total		3,061,130	2,703,513	1,666,682	509,534	7,940,859	24.5
Percentage of national total		9.4	8.3	5.2	1.6	24.5	

Notes: MitsuiCoal Mines (Miike in 1890, Horonai in 1899), Spinning Mills (Shinmachi in 1887), Silk Mills (Tomioka in 1893). Mitsubishi: Coal Mines (Takashima in 1881, Aburato in 1896), Gold Mines (Ōkuzo in 1888, Sado in 1896), Silver Mines (Ikuno in 1896), Shipyards (Nagasaki in 1887); *Sources*: Hadley (1973); Colpan et al. (2010).

industry and shipping. Additionally, Mitsui's banking business emerged from the management succession of Japan's First National Bank. Similarly, Mitsubishi's acquisition of 28 steamers from the government at no cost allowed it to gain a competitive advantage in the shipping industry. Furthermore, Mitsubishi's acquisition of government-owned shipyards facilitated its advancement in the machinery and equipment industry, closely aligned with its core business. Regarding Mitsui and Mitsubishi, the government contributed to initiating the big push by selling state-owned enterprises to these companies, aligning with the state-ignited big push concept.

However, the state-ignited big push concept does not fully explain Sumitomo's and Yasuda's growth. Sumitomo initially established itself as a medium-sized enterprise through the management of copper mines. Importantly, Sumitomo did not acquire these copper mines from the government; rather, the company independently discovered veins of copper ore (Asao & Sumitomo Historical Archives, 2013). Subsequently, Sumitomo ventured into the banking and metal industries, both of which became its largest sources of profits. Sumitomo entered these sectors using its own capital, and eventually became the third-largest zaibatsu in Japan. Hence, Morck and Nakamura's (2007b) assertion that Sumitomo was the primary purchaser of privatised businesses (Morck & Nakamura, 2007b, p. 377) is inaccurate. Similarly, Yasuda expanded its operations by venturing into the banking industry using its own capital (Yui, 1986). Morck and Nakamura (2007b) provided a list of large purchasers involved in privatisation. However, as indicated in that list, Yasuda did not acquire any state-owned assets (Morck & Nakamura, 2007a, pp. 566–567). Consequently, these two zaibatsu serve as cases that do not align with the state-ignited big push concept.

The analysis presented reveals the risks of positioning Japanese zaibatsu as typical examples of the big push concept. While this study recognises Mitsui and Mitsubishi as successful examples of the big push concept, it is crucial to avoid the misconception that this applies to most zaibatsu in Japan. As mentioned, there is a false perception that Sumitomo, the third largest zaibatsu, was a buyer of state-owned enterprises (Morck & Nakamura, 2007a, pp. 566–567).

To overcome the limitations of previous studies, it is necessary to re-examine the business history of zaibatsu that experienced growth not aligning with the big push concept. This study adds nuance to the understanding of zaibatsu in previous research by analysing Sumitomo, the third largest zaibatsu in Japan. Sumitomo was selected for analysis ahead of Yasuda (the fourth largest) because, like Mitsui and Mitsubishi, Sumitomo diversified into various industries, whereas Yasuda specialised in finance.

The research question addressed in this study is, how did Sumitomo succeed in diversifying into unrelated businesses without relying on government assistance? The analysis and discussion rely on overlooked historical archives that elucidate how Sumitomo diversified into the banking sector. These historical records reveal the mechanisms Sumitomo employed to venture into new business areas without relying on government assistance.

3. Methodology and sources

This study examines Sumitomo's management using documents from Sumitomo's historical archives in Kyoto. The study focuses on understanding how this zaibatsu successfully diversified its business portfolio from mining to non-manufacturing sectors without government assistance. It is crucial to emphasise that Sumitomo Bank, established in 1895, was among the largest sources of revenue for the whole group. Therefore, to elucidate Sumitomo's development, it is essential to clarify how it diversified into the banking industry.

To accomplish this, this study relies on the account books of Sumitomo's head office spanning 1874–1895 (referred to as HQ Account Books). Previous studies, such as Morikawa (1992), predominantly utilised Sumitomo's balance sheets, profit and loss statements, and documents disclosed by the U.S. occupation forces at the General Headquarters, which provided a broad overview of Sumitomo's activities. In contrast, this study distinguishes itself by leveraging account books that meticulously recorded Sumitomo's daily transactions. These account books contain detailed records of Sumitomo's loan recipients, with details on dates, amounts, and collateral. By analysing these records, this study clarifies the expertise Sumitomo acquired in financial operations before establishing its bank.

The following sections highlight that solving the puzzle of Sumitomo's business diversification, which played a pivotal role in its growth, requires a comprehensive understanding of not only the financial business that generated the largest profits for Sumitomo during the interwar period, but also the warehousing and real estate businesses. Therefore, alongside the previously mentioned account books, this study incorporates additional sources: a list of cargo stored in Sumitomo's warehouses and a list of real estate owned by the company.

The comprehensive list of stored cargo, prepared before the establishment of the bank, dates to 1893. It serves as a valuable historical document that elucidates how Sumitomo's financial business utilised warehouses to store loan collateral. This list provides detailed information on the depositor of each cargo item and the purpose of the deposit. This proves to be a useful resource for elucidating the relationship between the financial and warehousing aspects of Sumitomo's operations.

Historical records of Sumitomo's properties were compiled in 1900. This list of properties reveals how Sumitomo acquired real estate holdings during that period. Because real estate was occasionally used as collateral for loans at Sumitomo, this historical document provides insights into the interconnection between the company's financial and real estate businesses.

In short, by leveraging internal corporate archives not previously disclosed to the public, this study elucidates the business history of Sumitomo—the third-largest zaibatsu, often neglected in business group research. The approach adopted in this study—that is, utilising primary sources to present an authentic picture of corporate management—is not groundbreaking. However, the examination of Sumitomo's business diversification process yields novel insights because it serves as an exception to the state-ignited big push concept. These findings contribute to our understanding of Sumitomo's trajectory, and its departure from the conventional understanding of the development of zaibatsu.

4. Sumitomo: an unexplored zaibatsu

At the end of World War II, the three major zaibatsu accounted for 22.9% of the total capitalisation of Japanese companies (Yasuoka, 2004). Sumitomo ranked third, surpassed only by Mitsui and Mitsubishi. The two largest had a capitalisation of approximately ¥3 billion and ¥2.7 billion, respectively, while Sumitomo's capitalisation was ¥1.6 billion. The fourth-largest company (Yasuda) had a capitalisation of ¥500 million, significantly less than the top three, driving the collective reference of Mitsui, Mitsubishi, and Sumitomo as the three major zaibatsu.

Although Sumitomo accounted for 5.2% of Japan's total capitalisation, it is infrequently mentioned in English business groups literature, overshadowed by Mitsui and Mitsubishi.

One possible reason may be that Sumitomo remained a medium-sized family business for an extended period (Miyamoto et al. 1995). In 1928, Yasuda (¥240 million) rather than Sumitomo (¥180 million), was the third largest company after Mitsui (¥840 million) and Mitsubishi (¥590 million). Sumitomo was merely among the wealthiest companies in the western Japanese city, Osaka, far from the capital, Tokyo.

Sumitomo became the third largest zaibatsu through the successful diversification of its businesses. An examination of Sumitomo's primary sources of income over time reveals this shift in focus: initially engaging in mining until World War I, transitioning to banking in the interwar period, and later focusing on metalworking during World War II, as shown in Table 2. In contrast to Yasuda, which focused solely on finance, Sumitomo successfully expanded into various unrelated industries. However, Sumitomo's achievements in this diversification are not often discussed in comparison with those of Mitsui and Mitsubishi. One reason for this was the challenge of logically explaining how Sumitomo succeeded in diversifying into different fields.

An examination of Sumitomo's history reveals that the mining and metalworking industries can be identified as two of its three primary sources of revenue. Sumitomo's business began in the metalworking industry in 1590, and its operations stabilised with the opening of a copper mine (Besshi) in 1691 (Asao & Sumitomo Historical Archives, 2013). The mining operations provided Sumitomo with numerous opportunities to refine its metal industry skills. Therefore, it was unsurprising that the company successfully developed its metal industry business during World War II. Given the technological connections between industries, Sumitomo successfully diversified its business from mining to metalwork.

However, neither mining nor the metal industry catalysed Sumitomo's growth into a zaibatsu on par with Mitsui and Mitsubishi. Sumitomo initiated its banking business in 1895, which determined the company's growth (Shimotani, 2021). This complicates the explanation of Sumitomo's growth for historians, as there is no apparent connection between the mining and banking industries. Sumitomo did not succeed in entering the banking business with government assistance (privatisation of a national bank), as Mitsubishi did. Sumitomo entered the banking business in Osaka, far from the central government, without government assistance, and successfully managed this business.

How did Sumitomo enter the banking sector? Previous studies explain this success in two ways: entrepreneurship and family management at Sumitomo (Morikawa, 1978, 1992; Yamamoto, 2010). Sumitomo's entry into the banking sector was initiated by middle managers with experience in finance who proposed the idea (Morikawa, 1978). The middle managers' entrepreneurial spirit gained approval from the board of directors and the owner of Sumitomo. Nevertheless, acting on this approval required the elimination of Sumitomo's CEO (Yamamoto, 2010), Saihei Hirose, who wielded considerable power. Hirose's management policy centred on the core business (mining). Despite his expertise in finance, his successful experience in mining solidified his commitment to that sector; moreover, he was adamantly opposed to entering the banking business. To effect this change, the owner

Table 2. Transition of Sumitomo's largest source of revenue.

1875~1919	Copper mining business
1920~1935	Banking business (Sumitomo came to be known as one of the so-called three major zaibatsu)
1936~1945	Metal industries

Source: Yamamoto (2010).

enlisted his brother, Baron Saionji Koumou, to persuade Hirose to resign. Subsequently, Hirose was replaced by Teigō Iba, a relative of Hirose, as Sumitomo's new CEO, marking the initiation of Sumitomo's business modernisation.

However, these studies, while offering comprehensive insight into the decision-making process in the family business, insufficiently explain the success of diversification. Aoki and Itami (1985) argued that successful business diversification must be related to the existing business and not simply depend on human factors. Because Morikawa already elucidated the human factors, this study attempts to clarify the reality of some of Sumitomo's businesses and the hidden relationships between them.

5. The beginning of Sumitomo's modern financial business

5.1. Sumitomo's financial business before entering banking

Sumitomo's ventures into unrelated businesses began with the interconnection between mining operations and the need for storage facilities (Miyamoto, 1988). Despite the physical location of the mine in Ehime Prefecture, approximately 200 km southwest of Osaka, Sumitomo Corporation maintained its own warehouse in Osaka to facilitate the exchange of goods with the site. However, owing to the control of copper product sales by the sales office based in the neighbouring city of Kobe, rather than Osaka, the warehouse was underused, with substantial quantities of merchandise not brought to the storage facility.[4] During the Meiji era (1868–1912), the firm's headquarters in Osaka moved from its original location in Nagahori to Tomishima along the Yodogawa River, which connected the city to national markets, and was home to many warehouses. Sumitomo was in the middle of a critical logistics hub characterised by a concentration of wholesale dealers. This move was accompanied by the transfer of the corporate headquarters and warehouses. Nearby wholesalers seized this opportunity to use the space in Sumitomo's warehouses.

During this period, Sumitomo initiated modern financial operations, primarily offering short-term secured loans to commercial and industrial merchants. This financial business was of a new nature for Sumitomo. Even in the Edo period, Sumitomo participated in various financial activities, including loans to feudal lords and those secured by land to their relatives, employees, and farmers. However, by the end of the Edo period, loans to feudal lords had ceased because of their frequent inability to repay substantial loans. Therefore, at the start of the modern era, Sumitomo's lending activities were mainly to relatives, employees and farmers. These loans were small-scale nepotism loans that depended on personal relationships. Although nepotism loans were sometimes secured by land, they were often unsecured and the loan period was often long, often resulting in defaults (Asao & Sumitomo Historical Archives, 2013). In other words, Sumitomo's traditional loans were mainly long-term unsecured or land-backed loans to people with connections to the company. In contrast, the financial business that began in the Meiji period was short-term finance to merchants and traders other than related parties, secured by commodities such as grain or securities. Sumitomo honed its financial expertise by evaluating collateral and determining lenders and loan amounts. The account books of Sumitomo's head office illustrate that the loan balances were recorded, as presented in Table 3. As is evident from the loan balances, Sumitomo had already started providing loans secured by coal and rice as early as 1874, just two years after the relocation of its head office. Additionally, in April 1875, Sumitomo granted a merchant who was neither a relative nor an employee a loan of ¥4,450 (HQ Account Books). Sumitomo accumulated financial knowledge and experience through asset-based lending to various clients, which was crucial for its successful transition into the banking sector.

In the early 1890s, Sumitomo's finance division developed a loan portfolio akin to that of a medium-sized financial institution. An investigation into Sumitomo's loan collateral from 1880 to 1882 offers insights into the growth of its financial business. An analysis of the data presented in Table 4 reveals that grain was a prevalent form of collateral during this time, with almost half of the annual loan amount secured by grain in 1881 (HQ Account Books). The success of grain-secured loans is attributable to two factors: First, Sumitomo's head office was strategically situated near the centre of the grain market in Osaka, and second, the company's commodity-backed financing was managed by the Commercial Division, which was responsible for commodity trading (Satō, 2022). To evaluate collateral, it was essential to accurately determine the market prices of various commodities and forecast future price fluctuations.

Furthermore, Sumitomo established transactions with stock traders by accepting their securities as collateral (HQ Account Books). An examination of Sumitomo's commodity-backed finance borrowers in 1881 from the account books reveals that numerous individuals who borrowed substantial amounts from Sumitomo were not only grain wholesalers, but also stock traders. Although Hamasaki Ishichi, a rice trader in the Dōjima rice market, was Sumitomo's largest borrower in 1881; the second- and third-largest borrowers were both stock traders, namely, Iwamoto Eizo and Kurokawa Koshichi. Sumitomo lent approximately 70% of the face value of its securities as collateral. This experience of securities-backed financing facilitated Sumitomo's entry into the banking industry.

To expand its financial operations further, Sumitomo had to accept deposits and discount its bills. However, this required the establishment of a new bank. As Sumitomo lacked a banking licence and relied solely on its own funds, its capacity to grow its financial business was limited. Establishing a bank was prohibited by Saihei Hirose, Sumitomo's chief manager at the time. Following his financial experience, he was cognisant of the risks inherent in the

Table 3. Examples of Sumitomo's asset-based lending.

	Debtor's name	Amount of loan	collateral
Record of loan balance at the end of 1874	IZUMIYA [泉屋作兵衛]	¥160	coal
	KAWAKAMI [川上金兵衛・川上愛助]	¥450	rice
	HIRANOYA [平野屋佐吉]	¥80	rice
Loan record of April 7, 1875	INOUE AND NASU [井上治郎兵衛・那須長造]	¥4,450	unknown

Notes: The type of collateral is unknown, but records indicate that the loan was secured by movable property. *Sources*: Account books of the Sumitomo Head Office.

Table 4. Percentage of total loan amounts at Sumitomo Head Office by collateral.

	1880	1881	1882
Grain	50%	46%	4%
Securities	3%	32%	80%
Others	44%	21%	11%
Unknown	3%	1%	5%
Total	100%	100%	100%

Sources: Account books of the Sumitomo Head Office.

financial sector. His conviction that Sumitomo should generate profits primarily through manufacturing, and particularly mining, led him to forbid the company from entering the banking industry. In fact, he instructed the company to reduce the balance of collateralised financial loans (Morikawa, 1978; Sumitomo Bank, 1979). Although his approach could be viewed as conservative, it was not uncommon at that time; Furukawa, a company more heavily involved in mining than Sumitomo, followed the same approach of non-diversification into the financial sector.

Despite the manager's conservative outlook, Sumitomo pursued business diversification through collateral. The increase in collateralised financing necessitated allocating space and personnel for storing various types of collateral, including grain and real estate. Using such collateral served as an incentive for Sumitomo, which traditionally prioritised manufacturing, to broaden the scope of its non-manufacturing activities, encompassing warehousing and real estate, and augmenting its financial operations.

Sumitomo's transition to a modern financial business during this period was marked by the provision of short-term secured loans to a diverse array of commercial and industrial enterprises. The company's financial growth is attributable to its strategic acceptance of various forms of collateral, including grain, commodities, and securities. Despite the conservative management approach, Sumitomo successfully diversified its business through collateral, extending the reach of its non-manufacturing activities, and expanding its financial operations. The company's experience in collateralised and securities-backed finance laid the foundation for its eventual entry into the banking sector, demonstrating the importance of adaptability and strategic decision-making in the dynamic world of finance and business.

5.2. Organic relationship between finance and warehousing

In 1897, warehousing regulations were explicitly articulated in Japan's Commercial Code (Sumitomo Warehouse, 1977). Before then, warehousing associations existed but were relatively small in scale. Sumitomo, however, acquired numerous warehouses during the 1870s and 1880s, and had already grown into the largest warehousing company in Osaka by the time the Commercial Code was enacted. The primary reason for establishing warehouses was to store collateral, which inadvertently conferred a first-mover advantage on Sumitomo in the warehousing industry. Within Sumitomo, the steady increase in the balance of collateralised financial loans posed a challenge, as storing the escalating collateral became an issue.

The company sought to address this issue by allocating adequate storage space for collateral. In cases where movable property was used as collateral, a determination regarding whether the property would be retained by the creditor or the debtor was made on a case-by-case basis. During the relevant period, it was as critical for debtors to have a place to store goods, as it was to obtain funds. Consequently, Sumitomo opted to retain the movable property pledged as collateral. Sumitomo agreed to this arrangement because it could collect interest on loans and storage fees for collateral (Miyamoto, 1988). This made it necessary for Sumitomo to invest in a secure storage space for collateral. Sumitomo's strategy to expand its warehousing operations involved either renting or purchasing warehouses in proximity to its operations or former feudal lords' (daimyō) residences (Sumitomo Warehouse, 1977). Following the implementation of secured lending, both the loan balance and the total floor space of the warehouses owned by the company continued to increase, culminating in the establishment of Sumitomo Bank in 1895. Between 1884 and 1889, Sumitomo either borrowed or acquired the city storehouses of former daimyō from the Yanagawa, Izumo, Tokuyama, Hasuiike, Chōshū, Tatsuno, and Fukuyama clans.[5] For example, the former daimyō city storehouses of the Yanagawa and Izumo clans were managed by Sumitomo's Nakanoshima Branch Office. During the early Meiji period, Sumitomo expended considerable resources to acquire warehouses in desirable locations, necessitated by the growing requirements for storage facilities. In essence, the warehousing business served as a vehicle for collecting warehouses, while simultaneously facilitating the growth of the loan balance in the financial enterprise. The relationship between warehousing and finance was organic, and collateral played a mediating role, compelling changes in Sumitomo's operations, as it accepted collateral when lending money. Table 5 illustrates the categorisation of regular and secured goods stored in Sumitomo's Nakanoshima Warehouse No. 23. The data reveal that approximately 90% of Sumitomo's stored goods during this period were collateral (the list of stored cargo). The fact that such data were meticulously recorded underscores the importance attached to collateral. Upon compilation, it was determined that secured cargo accounted for approximately 90% of the items stored in the Nakanoshima Warehouses in 1893. Although not presented in the table, the names of most depositors of collateralised cargo correspond to those of the lenders of Sumitomo's collateralised financing.

It is noteworthy that data from other periods are unavailable owing to historical limitations; therefore, only educated inferences can be made based on the limited information at hand. However, as the loan portfolio of the company's financial arm grew, Sumitomo was compelled to expand its warehousing operations to secure adequate storage for collateral. This development may have been the catalyst for Sumitomo's diversification into the warehousing sector.

Sumitomo's warehousing business was acquired by the bank's warehousing division during the establishment of Sumitomo Bank in 1895 (Sumitomo Bank, 1979). Until 1923, when the Warehousing Section became an independent joint-stock company, a clear organisational link existed between Sumitomo's banking and warehousing businesses. In 1897, the Commercial Code of Japan allowed the storage of foreign goods without paying customs duties if they were not sold, whereas all foreign goods were the target of import taxes until then. This institutional change led to the development of the warehousing business in Osaka, resulting in the entry of various companies into the market. By that time, Sumitomo had already secured a substantial number of well-situated warehouses in Osaka, giving the company a first-mover advantage.

The diversification into banking and warehousing was executed by Teigō Iba, Sumitomo's second CEO. The first CEO, Saihei Hirose, resigned in 1895, coinciding with the bank's

Table 5. Sumitomo's warehouse cargo classification and amounts (1893).

	Rice		Wheat		Rapeseeds		Beans		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Deposited cargo	16,517	15%	1,970	5%	907	3%	5,328	6%	24,722	9%
Collateral cargo	92,387	85%	35,404	95%	32,561	97%	79,265	94%	239,617	91%
Total	108,904	100%	37,374	100%	33,468	100%	84,593	100%	264,339	100%

Notes: The unit of measurement for the quantity of each cargo is the traditional Japanese unit called 'to(斗)' 1 to(斗) = approximately 18.039 litres. *Source*: List of current cargo volumes in warehouses prepared by the Nakanoshima Branch of the Commercial Section of Sumitomo's Head Office.

establishment. Hirose's resignation resulted from a de facto dismissal by Kichizaemon Sumitomo, the head of the Sumitomo family (Yamamoto, 2010). Hirose opposed the establishment of the bank and made multiple unsuccessful attempts to diversify into manufacturing businesses, such as tea manufacturing and spinning. These ventures were barely connected to Sumitomo's existing businesses. Middle managers demanded Hirose's resignation, but he refused to acquiesce to their demands. Consequently, the owner of the business, the head of the Sumitomo family, urged him to resign. Immediately after Hirose's resignation, the middle manager responsible for collateral financing submitted a request to the CEO to establish a bank, which was approved by both the second CEO and head of the Sumitomo family. The effective functioning of Sumitomo's corporate governance, which is distinct from that of family businesses, in addition to the extensive accumulation of specialised financial skills through collateral finance, enabled Sumitomo to diversify its business into banking.

5.3. The role played by real estate-secured finance

Two of the rice fields that Sumitomo owned through pawn flow influenced its management (Hatate, 2005; Satō, 2022; Yamamoto, 2010). First, 'Yamamoto Shinden', a paddy field located in the Yamamoto region near Osaka, was acquired through a pledge during the Kyōhō period (1716–1736). Second, Okishima Shinden, the fourth largest land owned by Sumitomo, was acquired through a pledge in 1884. As previously mentioned, Sumitomo did not seek to acquire land. Yamamoto, Okishima, and other properties were assets that Sumitomo acquired incidentally through pawnbroking. Sumitomo lent money to a trustworthy farmer, who was unfortunately unable to repay the loan because of a fire. Consequently, Sumitomo had no choice but to purchase the land pledged as collateral. Sumitomo did not manage these lands, but used them for recreational purposes, such as vacation homes and bird and animal trapping. Although these lands could have been used as new rice paddies to generate income for farmers, the returns were not substantial, rendering them unattractive sources of income. Moreover, reports of typhoon damage suggest that Sumitomo allowed the original owners to continue managing their fields even after acquiring them. Therefore, the accumulation of land through pawn flow was a relatively passive activity for Sumitomo. However, Sumitomo's proficiency in real estate collateralised finance was undoubtedly an additional prerequisite for its entry into the banking business. Analysing the proportion of ordinary bank loans in Tokyo and Osaka between 1901 and 1937 by collateral (Nakamura et al. 2017), stocks accounted for the highest percentage (26.9–48.9%), followed by real estate (5.9–23.4%). It is reasonable to postulate that Sumitomo's proficiency in real estate-backed finance was advantageous to the company's banking business.

Moreover, Sumitomo's possession of a substantial area of rice fields by the 1880s granted the company a first-mover advantage in subsequent management endeavours. This was because, when Sumitomo diversified into the banking, warehousing, metalworking, and chemical industries in the 1890s and beyond, it required land to build factories for these enterprises. By using the rice fields that had already been obtained, Sumitomo was able to establish factory zones while minimising expenses (the list of real estate). In these areas, factories were constructed for the metal industry in 1905 and electric wire manufacturing in 1916 (Sumitomo Electric, 1961; Sumitomo Bank, 1979). As mentioned earlier, Sumitomo's main sources of income shifted to mining, banking, and metalworking, in that order. By the 1880s, Sumitomo had obtained the aforementioned rice fields through pawnbroking and owned them for approximately 20 years. Coincidentally, these rice fields supported Sumitomo's metalworking industry. This was an unplanned outcome of Sumitomo's management.

5.4. Limitations of business development through collateral

Collateral management was a historical prerequisite for Sumitomo's diversification into finance, warehousing, and real estate businesses. When the Banking Law was enacted in 1895, Sumitomo already had extensive credit information on its business partners and outstanding loans. Moreover, by the time the Warehousing Law was enacted in 1897, Sumitomo had acquired numerous warehouses in key distribution locations in Osaka. Additionally, as the need for modern factories became more pressing after 1897, Sumitomo acquired the land necessary for their construction.

However, collateral-based development only supported the initial development of these businesses. To further advance its businesses, Sumitomo needed to manage them more strategically rather than relying on passive development through collateral.

For instance, as Sumitomo's banking business evolved, it began to accept more securities as collateral rather than grain (Sumitomo Bank, 1979). Grain was highly volatile in price, and the high risk of spoilage also diminished its value. Consequently, from the 1890s onwards, Sumitomo's warehouses lost their previous customers. Sumitomo utilised its warehouse network, which had been expanded to store collateral for other purposes. This explains why Sumitomo entered the bonded warehousing business, which had only recently been introduced in Japan (Sumitomo Warehouse, 1977). The Japanese legal system for bonded warehouses—used to store imported cargo temporarily—was established in 1897. Sumitomo established a network of warehouses in the key water transportation area of Osaka, which allowed the company to make the most of its warehouse network.

Similarly, Sumitomo's real estate business became aggressive and strategic in land accumulation. Instead of acquiring rice fields in the suburbs of Osaka, Sumitomo began to purchase residential land in the centre of Osaka (Satō, 2022; Yamamoto, 2010). Sumitomo's head office used the newly acquired land for banking and warehousing purposes, and bank branches, warehouses, and factories were also built (the list of real estate).

Consequently, Sumitomo successfully diversified its business into nonmanufacturing sectors. By 1911, it had become the largest landowner in Osaka (Nakamura et al. 2017). In 1925, it owned the largest bonded warehouse in Japan based on its annual deposits (Satō, 2022). By approximately 1930, Sumitomo had become a conglomerate operating the largest deposit bank of all ordinary banks in Japan (Ishii, 1991).

Particularly, Sumitomo Bank, established to manage the collateralised finance that Sumitomo initiated in the Meiji era, became Sumitomo's primary source of profit from approximately 1920 to 1935 (Satō, 2022; Shimotani, 2021). For instance, in 1920, Sumitomo's profit (the sum of profits from surplus branches) was ¥21,905, of which 63.2% (¥ 13, 840) came from Sumitomo Bank. Afterward, and until 1935, the profits generated by Sumitomo Bank accounted for 30–50% of the company's total profits. Sumitomo Bank was Sumitomo's primary source of income during the interwar period. Collateral aided in the development of Sumitomo's non-manufacturing businesses beyond the intentions of managers and facilitated Sumitomo's rise to become a leading Japanese zaibatsu.

6. Discussion and conclusion

This study challenges the prevailing understanding of zaibatsu growth, as explained by the state-ignited big push concept, by elucidating the process of business diversification within Japan's third-largest zaibatsu, Sumitomo. Sumitomo's growth cannot be attributed solely to the privatisation of state-owned enterprises, as Colpan et al. (2010) and Morck and Nakamura (2007b) asserted. Unlike Mitsui and Mitsubishi, which expanded their businesses through such acquisitions, Sumitomo (primarily operating in the mining industry) achieved unrelated diversification into the banking sector without relying on government assistance. The success of Sumitomo's diversification can be attributed not only to the governance and entrepreneurship of its middle management, as highlighted by Morikawa (1992), but also to the effective use of internal management resources, particularly loan collateral, which acted as a mediator between traditional and new business ventures.

Figure 1 presents the findings of this study. First, by clarifying the actual financial and warehousing businesses, this work reveals how Sumitomo diversified from the mining industry to the banking industry in a non-associated manner. Sumitomo promoted the diversification of its business from mining to warehousing by utilising surplus warehouses. Instead of storing goods required for their mining business, Sumitomo's warehouses accommodated products from nearby grain wholesalers. Hence, Sumitomo diversified into the financial business by lending funds to freight owners using rice and other movable assets stored in its warehouses as collateral. The financial and warehousing businesses grew while maintaining an organic relationship. In fact, Sumitomo's warehousing business was classified into two types of stored cargo: 'deposited cargo' and 'collateralized cargo' (the list of stored cargo).

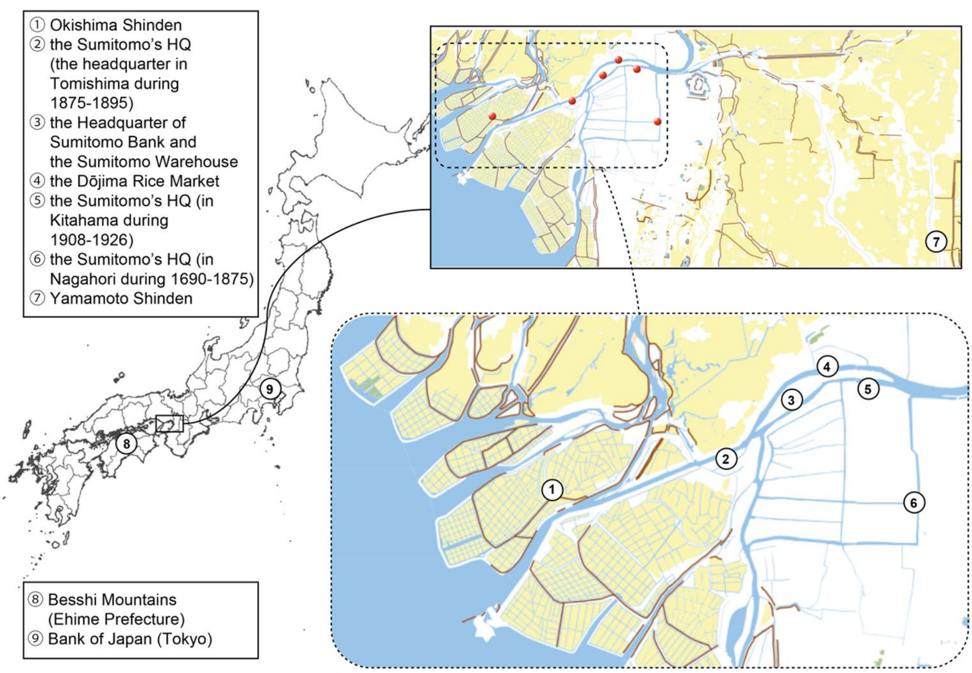

Figure 1. Location of Sumitomo's major businesses.
Source: The Geospatial Information Authority of Japan.

The purpose of renting or acquiring warehouses was not only to store goods, but also to secure collateral cargo. Through its collateral finance business, Sumitomo refined its techniques for evaluating collateral and succeeded in cultivating lenders such as influential grain merchants and stock dealers. Sumitomo initiated its banking business in 1895 by taking over the assets of these financial businesses, which likely provided the company with a competitive edge over other firms, such as Furukawa.

Success in the financial sector was a precondition for success in the metalworking industry, which later became Sumitomo's primary source of revenue. Sumitomo's experience in real estate financing (in addition to financing secured by movable assets) enabled it to obtain factory sites for the metal industry at reasonable prices. This study has presented cases in which Sumitomo lent funds to landowners who pledged fields as collateral, and the collateral became Sumitomo's property through pawn flow. Although there were few cases in which real estate collateral was pledged, Sumitomo acquired a particularly large field in one instance, and by 1877, had become a major landowner in Osaka. Sumitomo was able to retain the lands obtained through pledging, and when the metal industry developed, it utilised them for its factories. Sumitomo succeeded in developing its financial, warehousing, and real estate businesses through collateralised financing, growing from one of Osaka's wealthiest companies to one of the three major zaibatsu.

This study demonstrates that Sumitomo achieved successful diversification into unrelated businesses without government assistance by leveraging the connections between its existing and new businesses. While the industries were unrelated in terms of technology or markets, there were some connections facilitated through finance and collateral.

Examining the Sumitomo case has several implications for business history research. First, it calls for a revision of the understanding put forth by Colpan et al. (2010), and Morck and Nakamura (2007b), who relied on the state-ignited big push concept to explain the growth of Japanese zaibatsu. While the concept's emphasis on the privatisation of state-owned enterprises serves as a valuable general explanation of business group growth in developing countries, caution must be exercised when applying it to the Japanese context. This concept only accounts for the growth of half of the four major zaibatsu. Explaining the growth of modern Japan's business groups requires considering not only state-led corporate growth, but also instances where companies expanded by leveraging their internal resources.

In the presence of large corporations propelled by the big push concept, there were companies embodying Edith Penrose's perspective. According to this perspective, business diversification occurs when entrepreneurs utilise 'untapped potential' resources within their companies. A company's ability to connect these resources to growth is determined by its entrepreneur's accumulated knowledge and experience. Sumitomo is a typical example of a company that aligns with Penrose's resource-based view. This corporation capitalised on the 'untapped potential' of its resources in three notable ways. Initially, it utilised idle warehouses intended for mining operations to store goods for neighbouring merchants. Subsequently, Sumitomo began offering secured loans using stored goods as collateral. Lastly, they employed real estate obtained through pawnbroking to establish factories in the metal industry. Consequently, Sumitomo successfully transitioned from dependence on mining to diversifying into sectors such as banking, warehousing, and the metal industry.

Second, this study reveals that a company's own resources can lead to unexpected growth that is not originally planned by managers. For example, Sumitomo's manager did not plan to expand from mining and manufacturing into banking. However, the use of collateral—an

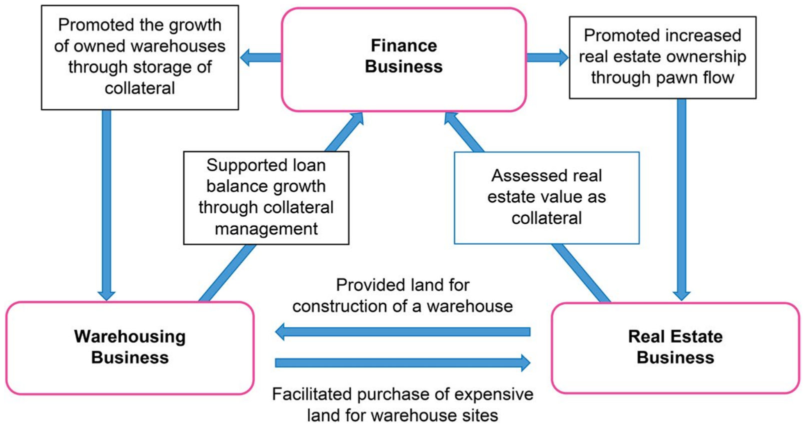

Figure 2. Correlation diagram: the role of collateral in Sumitomo's business diversification.
Source: Figure created by the author.

internal resource—effected changes in Sumitomo's growth. Managing collateral involves dedicating people and space to assess its value and keep it safe. If a company does not appropriately value collateral, lending risk increases. Similarly, failing to store collateral safely can reduce its value. Consequently, regardless of its original management plans, Sumitomo gained valuable knowledge and experience in warehousing and banking. This expertise was developed by Sumitomo's middle managers, who later suggested that the company start a banking business.

Third, the role of Sumitomo's owners and top managers in this study was to approve the suggestions of the middle managers. This aligns with what Wadhwani and Lubinski (2017) describe as 'legitimizing novelty' in entrepreneurship. Sumitomo's owners replaced the top manager who opposed the move into banking. Consequently, middle managers had the opportunity to propose the banking venture, and the owners and top managers approved this new idea. Their leadership involved endorsing innovative proposals at the lower levels of the company. This study shows that the type of leadership that drives a company's growth may not always originate from the top down.

Fourth, this study offers valuable insights for future research on business groups. Specifically, it is necessary to examine cases in which business groups emerge as some of the largest entities in their respective countries, despite minimal government assistance. Investigating such cases can help uncover exceptions to the prevailing theories and elucidate the developmental trajectories of firms located in regions distant from the central government. Including not only the largest, but also other prominent business groups in the analysis provides a more diverse and comprehensive understanding of the country's business landscape.

The limitation of this study lies in its failure to present a comprehensive alternative to the conventional perspective. While it enhances the understanding of zaibatsu, it falls short of offering new theories or concepts for thorough comprehension of these conglomerates. Merely highlighting Sumitomo's divergence from the traditional understanding is insufficient. Future research on zaibatsu should strive to offer a novel understanding, transcending the conventional big push concept, through in-depth examination of various case studies.

Notes

1. The term 'big push' is not used consistently. Rosenstein-Rodan (1943) did not use the term 'big push' in the paper. Indeed, economists up to the 1990s sometimes referred to 'big push' as a theory (Murphy et al., 1989; Sutcliffe 1964). However, there are doubts about whether the 'big push' is a strict theory. Meanwhile, in studies of business groups, the term 'big push theory' is seldom used. Instead, they simply call it 'big push' or integrate it with various terms (mechanism, development, coordination, growth) to describe it (Colpan et al., 2010; Morck & Nakamura, 2007a; Morck, 2007). Therefore, this study uses the term 'the "big push" concept' for convenience. This term implies that 'big push' is not a strict theory and does not have a unified name, but it is a concept that evokes a certain type of economic growth and policy approach common to many researchers.
2. Schneider (2009) mentions how the Japanese business group, keiretsu, grew in relation to the government in the postwar period. This study addresses similar issues but focuses on previous studies of Japanese business groups (zaibatsu) in the prewar period.
3. Colpan emphasized the big push concept in his theoretical overview in the Oxford Handbook (Colpan & Hikino, 2010). However, Miyajima and Kawamoto (2010), who wrote the chapter on Japanese zaibatsu in the same handbook, carefully avoided mentioning the big push concept in the text. They only mention the big push discreetly in a footnote, citing Morck and Nakamura (2007).
4. The majority of copper products produced by Sumitomo at the Besshi Copper Mine were exported indirectly. While Sumitomo's records labelled them as 'domestic sales', they were actually sold to export merchants and foreign trading houses, which subsequently exported them. Around 1905, as Sumitomo's metalworking business started to grow, sales within the domestic market also rose (Sumitomo Metal Mining, 1991).
5. Sumitomo was already conducting business activities in Osaka since before modern times, leading to interactions with feudal lords. For example, in 1815, when a flood occurred in the rivers of Osaka, it is said that Sumitomo sent gifts and letters to the surrounding warehouses of various clans (Kurayashiki) and the offices of each clan. However, no historical documents were found indicating that Sumitomo had a special relationship with the clans that allowed them to rent or purchase warehouses at low prices. The feudal clan system was abolished in the modern era, along with the system where each clan owned warehouses (the Kurayashiki system). For instance, considering the warehouse of the former Yanagawa clan, records show that Sumitomo purchased the warehouse at a rather high price for that time (11 yen per square meter) (Sumitomo Warehouse, 1977).

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