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Abstract	(1) As it is shown in the answering rate itself, concern of top management on the rationalization of business finance is very sincere. (2) As for depreciation system, contraction of depreciation terms and general or partial widening of the rooms for arbitrary depreciation are earnestly desired. (3) Corporate tax has been intensely criticized, and opinion of the majority takes its revision as a premise for financial rationalization. (4) Regarding budget system, opinion of the majority asserts concentrative management, but not a few recognize the necessity of decentralized system. (5) Upon internal audit and concept of cost, a fundamental shift from the traditional idea is fairly evident.
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## SURVEY OF TOP BUSINESS EXECUTIVES' VIEWS ON RATIONALIZATION OF BUSINESS FINANCE\*

by

*Yasuo Kotaka*

Presently, fairly large scale structural reformations are going on in enterprises of our country, in connection with the economic liberalization and technical innovation. Our opinion is that the views of business executives concerning how to deal with the managerial problems arising from it will have a great significance for us in laying down the future directions of our enterprises. Therefore, formerly we had made a survey of top executives' views on the social conditions in Japan from the viewpoint of long-range development of enterprise, as a part of the research works of the Industrial Research Institute of Keio University. This time we have taken up the problems regarding the rationalization of business finance, and similarly have surveyed executives' views on them as are presented here.

The phenomenon such as the deteriorations of constitution in business finance that are apt to follow increases in productivity represents one of the most fundamental paradoxies in our economy, and it requires a wide scope of policies for its remedy. We have asked questions on this problem, summarizing them into five items: 1. Depreciation system; 2. Dividends, internal reserves, and corporate tax; 3. Budget control system; 4. Internal audit system; and 5. Concept of real cost.

As the object of the survey, we picked up top executives of the leading 943 joint stock companies with respective capitals of more than 100 million yen (about 300 thousand dollars). We send questionnaires on May 1st, 1960, and received 303 answers. The proportion of questionnaires which were answered was 32 per cent. Unforeseen political events had occurred one after another, during the period, causing a serious unrestness over the whole country. Hence it was the most unfortunate time to make a survey, but the result had shown a better rate over the previous survey, 28 per cent of the answers, suggesting profound concern of the business on the matter.

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### **1) Depreciation System**

In connection with the recent technical innovation and economic liberalization, serious problems are arising on many phases of business management. As regards business finance, the depreciation system ought to be examined first, since it has the most essential relationship with finance programs and pricing policies. Upon this problem—

Mr. A's opinion is as follows:—

“For the sake of the development of enterprises with sound constitution, it is better to put the method of depreciation at each enterprise's discretion in principle, and allow cost-treatment of the whole amount with respect to taxation.

Nowadays, enterprises must rely upon the strength of their own in coping with the current problems on liberalization and innovation. In other words, each enterprise has to make plans which assure profitability and responsibility, on the grounds of accurate analysis of its particular positions in marketing, production, labor and finance, for both present and future. Therefore it is of urgent need that depreciation, the most important part of financial activities, is settled in line with the technical structure of enterprise. Until now in our country, too much emphasis has been laid on the cost-side of depreciation, and the fund-side has been ignored. Profitability of the equipment to be depreciated will become clear only when proper considerations are given on both sides, cost and finance. The consideration should not be based on taxation for public finance, but be directed by economic judgement of each enterprise.

At the transition period, arbitrary depreciation might bring about some shock on public finance or some effects upon competition among enterprises, but would never be a grave sacrifice since by the arbitrary depreciation, executives will give more deliberation to the profitability of equipment, affording premises for the betterment of financial constitutions of enterprises.

However, even though they are left free to the accounting policy of each enterprise, close connections with the officials might be necessary in setting up or revising their policies, because the so-called principle of continuity must be preserved.”

Mr. B's opinion is as follows:—

“I cannot agree with your opinion at all. You are overestimating the positive side of arbitrary depreciation, while underestimating its negative side.

Arbitrary depreciation would lead enterprises to sincere consideration on their policies, as you say. But there are no grounds decisively to speak of the better constitution of finance. I fear rather that by arbitrary depreciation, most enterprises would unreasonably lessen the amounts, tending to put a spur to the over-competition. In view of the fact that presently most enterprises are falling into unstability of financial foundations, I cannot but be afraid of a confusion that might be possibly of a scale which is beyond expectation. The result will lead to a consumption of capital as well as internationally

inferior position of finance. Moreover, estimation of capital-efficiency rate to compare enterprises may become impossible, while national flow of capital will become imperfect.

You say the fund-side of depreciation is neglected, but recently this point has been gradually recognized by the public and legal regulations have been revised, as you know.

I dare say, the current regulations should be made more extensive and minute, in order to raise the levels of business financing. For instance, in respect of the large amount of damages caused by factory accidents, lately becoming more frequent, it may be necessary to include even these damages into the depreciation factors.

I think, a fundamental revision of the present depreciation system, that makes one of the social foundations, will not only derive a confusion but also worsen the constitutions of enterprises."

The survey has shown:—

Supporting A's opinion .....	107 persons	36%
Supporting B's opinion .....	163 persons	54%
Other opinions .....	33 persons	10%
Total .....	303 persons	100%

In view of the widespread conception that accepts the strict regulations put on depreciation by the tax law as if an ordinary custom, it presents a very interesting result that as many as 107 executives in principle have denied such concept. Desires for a fundamental reform of the present system are fairly earnest not only among small companies that are excluded from the benefits of the "special depreciation" but also among big enterprises. Twenty one persons, 20 per cent of the total, gave answers supporting A's opinion but suggested somewhat different reasons, or presented some kind of qualifications on it. These qualifications, in the meaning, influenced other views more or less, so we shall illustrate them below.

(1) Executive of Kirin Beer, supporting A, argues, "I support arbitrary depreciation in principle, but it ought to be enforced on the basis of industrial groups" in order to prevent disturbances of industrial order, because "the essence of depreciation lies in dividing the input costs of fixed investment over its whole utilization period". And the problem arising from under-depreciation is "in the negative attitude toward equipment modernization which arises from the large book-value due to the shortage of depreciation and the resulting large sum of loss to be accounted in case of renewal." In other words, he points out that liberal depreciation is necessary in order to prevent the emergence of large amount of "sunk cost" derived from depreciation shortages. Of course the adoption of arbitrary system must be adjusted to fit to the condition of each industrial group, but in principle "a shock of some degree upon industries is to be endured in respect of its interest." Argument that points out the necessity for some regulations by the tax law, besides the continuity principle, has been seen in many answers. Concerning this regulations by the tax law, executive of Mitsui Senpaku (shipping) asserts "standard depreciation". He says: "B's opinion is also approvable since under

arbitrary system not a few enterprises may be tempted to profit manipulation through under-depreciation rather than over-depreciation. Hence, as a compromising or adjusting measure, a standard amount should be laid down besides the existing tax law, with footnotes or B/S, P/L for depreciation below the standard." A similar opinion has been expressed by Mr. Inukai, president of Yokoyama Kogyo (machinery). President Mochizuki of Azuma Seikosho (steel) states: "This actual sum of overstandard depreciation is to be counted upon as non-business expenses", and by showing the difference between both amounts on the footnotes of the profit and loss statements the "abuse of under-depreciation" is to be prevented. And he asserts that the fear of the Financial Dep't on over-depreciation regardless of dividends is groundless. President Tsukada of Toho Gas holds: "In principle I support A's view, but in view of the possible evils discussed by B, a certain qualification is desirable, such as that makes, for instance, increases in depreciation up to 50 per cent non-taxable." President Morishita of Nihon Shinyaku (drugs), actively supporting A, argues: "Tax system in this country is always aimed to prevent tax evasion and to increase tax receipts. So far entrepreneurs are not trusted. However responsible entrepreneurs are putting utmost concern upon the betterment of the constitutions of their own. I believe, as the Labor Standard Act legally requires a minimum degree of labor management, excellent business men morally esteem standards of business management. Appreciation on enterprises performed by the security business circles will also put weight on this point." Similar opinions are also found in the answers given by executives of Takano Kensetsu (construction), Nihon Seiko (steel), Daiwa Seiko (steel). President Kinoshita of Ichikawa Keori (wool textile) states: "Adequate system of arbitrary depreciation is the premise of improving constitutions of enterprises from the viewpoint of social responsibilities of entrepreneurs. The idea to take the current legal depreciation as a standard has been shown by executives of Nihon Spindle Manu. and Howa Kogyo (machinery) besides above mentioned Mitsui Senpaku (shipping). Executive of Shibusawa Soko (warehousing) asserts on this point that "depreciation above the legal level should be deemed above-depreciation and allowed settlement as expenses at will." President Iwai of Nihon Lace also supports this view.

Executive of Toyo Kogyo (automobile) discusses: "Theoretically I support A's opinion, but considerations on taxation are also not to be ignored. It may be better to leave to free decisions within fixed upper and lower limits, after curtailing the present depreciation lives. As a means for controlling, it is necessary to put weight on the roles of certified public accountants." Such thinking is seen also in the supporters of B's view as shown later. As regards the problem of "economic obsolescence" of equipment in relation to innovation, executive of Sanyo Pulp argues: "As the facts of economic obsolescence are substantially diversified among enterprises, depreciation with respect to it should be liberalized on the basis of the present physical endurance-lives, in order to increase flexibility of business management," and, further, he stresses that arbitrary system is to be limited to the economic obsolescence. Executive of Iino Kaiun (shipping) asserts arbitrary depreciation on the grounds of the

peculiarity of shipping. Executive of Mitsui Bussan (trading) asserts a distinction by objects saying: "Business assets (mainly machinery) should be the main object of arbitrary depreciation, leaving non-business assets (housing and other welfare provisions) to legal regulation." While one of the motives of the survey has been laid on the doubt that the object of the current special depreciation is pointing too much toward big enterprise, only one executive of the A's supporters, Kowa Boseki (spinning) takes up this point, making "extension of systems like special depreciation, and setting maximum depreciation rate" as his qualification.

(2) A) Supporters of B's opinion count 163 persons (54 per cent), of whom 48 persons are conditional. A major view of numerous persons is that A's opinion is approvable, but too hasty to enforce it today. President Kato of Daiwa Boseki (spinning) states criticism toward both opinions as followings; "I am of the same opinion as A which asserts that until now too much emphasis has been placed on the cost-side of depreciation, neglecting the fund-side of its character. But it is rather illogical to argue, on the grounds of the above reasoning, that depreciation should be put free to discretion of each enterprise. Of course the current legal endurance lives for depreciation are very far from the realities requiring a revision as soon as possible for the sake of capital accumulation and technical reformation. But as for this point, I believe, some revisions of the present regulations into more extensive and minute ones would bring about effective results, as Mr. B suggests. The faults we must mention on A's opinion are that, firstly, arbitrary depreciation might result in unreasonable expansion and contraction of endurance lives, showing wide differentials among enterprises according to abilities, and secondly entrepreneurs would become unable to hold sustained efforts for necessary depreciation, yielding to the demands of stockholders."

President Takeda of Mitsui Soko (warehousing) discusses; "Under free depreciation, excellent enterprises could proceed to increased internal reserves and rationalization, but others in general would be inevitably driven to decreased reserves, easiness in business and over-competition due to the shortage of depreciation, in view of their weak foundations." Furthermore, public finance will possibly face a confusion caused by over-or under-depreciation accompanied to business cycles, and comparison of costs among enterprises or business terms will become difficult. However, a substantial contraction of the present endurance lives may be necessary in respect of furious innovation and changes in profitability." More directly director Usui of Kawasaki Kasei (chemicals) urges, "In view of the present situations of petroleum and petro-chemical industry that prices are often estimated regardless of depreciation despite of their huge sum of investment, to enforce A's opinion is too hasty."

Most of the answers with qualification, about 90 per cent, are showing dissatisfaction against the current system. The reasons for it are numerous as shown in the follows, but, in short, they desire shorter depreciation terms. Supposedly, many of the executives supporting B have the same concern.

One of the reasons for dissatisfaction is connected to revision of the

present "special depreciation" system. Executive of Namura Zosen (ship-building) remarks: "A point to be revised is that the present system is too much partially beneficial for big enterprises." President Sato of Sato Kogyo (construction) holds: "Over-competition following the liberalization of foreign trade will possibly result in inadequate depreciation and worsened business constitution. Hence, I am for A's view, but I am never satisfied with the present system. Particularly in our construction industry, desires are earnest for shorter depreciation terms, increases in special depreciation and revival of the evaluation tax." Executive of Lion Yushi (oil and fat) advocates: "On the application of the legal depreciation rates, full care should be taken upon the needs of capital accumulation and economic obsolescence (by technical innovation), while the special depreciation should be extended and simplified." The same view has been stressed by executives of Harima Zosen (ship-building), Tokyo Shearing (metal processing), Toyo Kanetsu Kogyo (metal processing), Mitsuboshi Chotai (belt).

B) Not a few answers are connecting economic obsolescence with shorter depreciation terms. President Hara of Nihon Kayaku (explosives) asserts: "As a principle, legal system is better, but in its actual application an adaptation to the real positions of respective enterprises is necessary, in respect of the rapid technical reform. For that purpose, partial revisions at appropriate intervals, say two or three years, and a decrease in endurance terms reflecting social and economic obsolescence should be adopted as an official policy." Answers of almost the same meaning have been made by executives of Nihon Kangyo Ginko (bank, Nikkei Aluminum, Kanegafuchi Boseki (spinning), Toyota Jidosha Hanbai (auto sales), Dowa Kogyo (mining), Tokyo Kaijo (marine insurance), Shizuoka Tetsudo (railroad), Yamatake Honeywell (instruments), Kyokuichi Shine (textile), Aichi Kogyo (engineering), Osaka Gas, Aso Sangyo (mining), Showa Sangyo (foods), Mitsubishi Shoji (trading), Osaka Sanso Kogyo (oxygen) and Naigai Amimono (knit works).

C) A view that points out the needs for flexibility in depreciation, besides shorter terms, has been found among the above mentioned A's supporters and "other views" to be illustrated later, as well as among no small numbers of B's supporters. President Owada of Nihon Soda claims: "Flexibility within legally fixed maximum and minimum limits, accompanied to measures to increase internal reserves by shorter terms." Executive of Kobe Denki (electric equipment) wants, "a reform for the sake of additional depreciation to be enforced by the free will of each enterprise, besides some improvement in the present system." The same opinion has been expressed by executives of Osaka Yogyo Cement and Nihon Seiko (mining). Executive of Maruzen (books and stationary) argues: "It may be better to set two pillars, namely the existing special depreciation and maximum depreciation (for instance, 50 per cent increase over legal amount) leaving them to free selection of each enterprise (provided maintenance of the continuity)." It is of interest that executive of Mitsubishi Seishi (paper) insists upon "re-purchasing price" saying, "on the basis of re-purchasing price, a revision of the endurance terms is necessary to meet trade liberalization." Executive of Dainihon Boseki (spinning) op-

poses to "extension and more minuteness of the present system" as B asserts, but recognizes the significance of shorter lives including economic obsolescence; and further advocates: "Legal depreciation has been discussed so much because of the high tax rate. Lower tax would be a solution, but another way may be imposing taxation on one half the sum of the over depreciation as profit."

A view that arbitrary depreciation is questionable from the viewpoint of impartial taxation has been pointed out by executives of Taiwan Seito (sugar), Ishizuka Glass, and Nitto Ryuso (soda). In relation to this argument, fixing of the depreciation terms by industry groups has been claimed by executives of Sanraku Shuzo (brewery), Nishimatsu Kensetsu (construction) and Nihon Piston Ring. Reflecting the particularity of shipping, executive of Kyoritsu Kisen discusses: "More flexibility on the grounds of the present system is desirable. For example, presently a same rate is applied to ships of 500 tons as well as 10,000 tons, although the latter are ocean-going ships and possibly more apt to be affected by technical progresses to cope with foreign competition. There are many other instances of the like requiring flexibility in depreciation." Also president Saegusa of Kamihime Jidosha (bus transportation) urges peculiarity of service industries to be subject to special controls. Executive of Takasago Tekko (engineering), adopting B's opinion, asserts more minute regulations. He states: "While the report regarding depreciation to general meeting is legally enforced by the Special Act concerning Assets Reevaluation for the Fulfilment of Enterprise Capital until the business term ending on March 31, 1962, it should be made obligatory forever."

(3) Answers to be grouped under "other opinion" register 33 persons, most of them hold in-between views. Several of them express compromising attitudes without suggesting any particular line. For instance, president Yoshino of Sumitomo Soko (warehousing) argues: "Although both opinions of A and B are approvable, for the healthy growth of business, it is necessary to coordinate the legal regulations that B claims and the free decisions that A insists upon. Executive of Honshu Seishi (paper) discusses: "In fact, the deficiency of owned capital in our enterprises has been derived from insufficient depreciation. However, as A's view is too much progressive, it may be appropriate to enforce asset reevaluation anew matching to the actual inflation, and to amend the present rules so as to shorten endurance lives and to ease depreciation of obsolete assets." Almost similar views have been expressed by president Moriwaki of Kanematsu Yomo Kogyo (wool textile), and executives of Nihon Kogaku (optical goods), Nitto Kinzoku Kozan (metal mining), Shiseido (vanity goods) and Nihon Kako Seishi (paper processing).

On the grounds of these basic attitudes, not a small views have advocated further liberalization, recognizing the legal regulations as a standard. President Domen of Ajinomoto (flavor foods) asserts: "It may be appropriate to entrust depreciation to free decisions of enterprises between a certain maximum and minimum limits, because even the same equipment or machines may have different lives depending on their applications, operation rates and factors of obsolescence, which are hard to be legally defined." Approving the



free decision between both limits, executive of Nihon Cement suggests a limitation on dividends to be enforced in case of depreciation under the minimum limit. President Sugiura of Konishiroku (camera) also approves the fixing of upper and lower limits, especially stressing the principle of continuity. President Ohara of Fuji Boseki (spinning) advocates that the legal rule should be the obligatory minimum, making surpassing depreciation arbitrary. President Adachi of Radio Tokyo also insists, "depreciation up to a settled rate should be obligatory (provided for the present only with respect to enterprises of a certain scale or over), and depreciation over it be left free." The same view has been expressed by president Nagataki of Tokyo Gosei (chemicals), president Kitagawa of Sumitomo Denki (electric equipment), and executives of Yokohama Gum, Sumitomo Kagaku (chemicals), Toyo Kohan (steel), Shinto Torio (paints), Tsukishima Kikai (machinery), Marukane Shoyu (soy), Hoku-shin Denki (electric equipment), Fujisawa Yakuhin (drugs). Executive of Shin-Osaka Hotel advocates a need of allowances by industry groups, and executive of Tobu Tetsudo (railroad) also has the same view.

Though many views and devices have been illustrated as above, they are, of course, qualified by the attitudes toward the taxation problem. President Hirabayashi of Tanabe Seiyaku (drugs) argues on this point saying, "Both opinions are respectively characteristic, but they are after all only representing a part of management techniques. The primary consideration has to be payed on the too heavy burden of taxation that has been preventing capital accumulation. A substantial tax reduction should be enforced in order to eliminate unproductive expenses for tax, and thereby to assist improvement of the constitutions of enterprises." This is an important proposition which requires sincere consideration by the taxation officials.

## **2) *Dividends, Internal Reserves and Corporate Tax***

One of the serious problems regarding the composition of capital in our enterprises lies in the improperly low ratio of owned capital as compared with external capital. There may be many measures for the adjustment. As one of the measures regarding the problem of the profit disposal—

Mr. A's opinion is as follows:—

"Reviewing the profit disposals in our enterprises for the past several years, one may find that internal reserves are the only element that has been settled in proportion to the increases or decreases of profit, naturally except taxes. Dividends and remunerations for directors and others have been increased regardless of the changes in profits. (See Table.) Needless to say, profit disposals make the expenses for the maintenance of enterprise in a broad sense. While dividends, remunerations and taxes correspond to the expenses for past services, internal reserves represent the preparation for future needs.

I think a careful attention upon this point is essential for the solution of the problem of filling-up owned capital. However, more basically conditions for the solution must be searched for in the attitudes of enterprises

## Japan (100 million yen, %)

year	1951	1952	1953	1954	1955	1956	1957
Net income	3,638(100)	2,891(100)	3,470(100)	3,692(100)	3,355(100)	5,151(100)	8,081(100)
Dividends	403(11.8)	583(20.17)	749(21.59)	875(23.70)	984(29.33)	1,246(24.19)	1,757(21.74)
Remuneration	88(2.42)	110(3.80)	122(3.52)	128(3.47)	125(3.72)	150(2.91)	248(3.07)
Tax allowance	1,643(45.16)	1,697(58.70)	1,900(54.75)	2,121(57.45)	1,820(54.25)	2,520(48.92)	3,608(44.65)
Internal reserves	1,504(41.34)	501(17.33)	699(20.14)	568(15.38)	426(12.70)	1,235(23.98)	2,468(30.54)

Source: Ministry of Finance, Annual Report on Corporate Statistics, 1958, p. 87

## The United Kingdom (£ m, %)

year	1950	1951	1952	1953	1954	1955	1956
Net income	2,089(100)	2,337(100)	2,364(100)	2,596(100)	2,847(100)	3,045(100)	3,158(100)
Dividends & Interest	657(31)	674(29)	738(31)	808(31)	919(32)	1,022(34)	1,102(35)
Taxation	948(46)	1,287(55)	1,105(47)	1,099(42)	1,134(40)	1,135(37)	1,248(39)
Net savings	484(23)	376(16)	521(22)	689(27)	794(28)	888(29)	808(26)

Source: Studies in Company Finance.  
Cambridge University Press, p. 27

## The United States (\$ m %)

year	1951	1952	1953	1954	1955	1956	1957
Net income	27,437(100)	22,913(100)	24,403(100)	20,934(100)	38,561(100)	29,768(100)	28,167(100)
Dividends	5,540(20.1)	5,487(23.9)	5,594(22.9)	5,940(28.4)	6,712(23.5)	7,357(24.7)	7,553(26.8)
Taxation	15,558(56.7)	12,200(53.2)	13,064(53.3)	9,702(46.3)	13,461(47.1)	13,614(45.7)	12,727(45.1)
Net savings	5,161(18.8)	4,284(18.7)	4,286(17.6)	4,004(19.1)	5,550(22.9)	5,615(19.6)	6,673(23.7)

Source: Quarterly Financial Report for Manufacturing Corporations,  
Federal Trade Commission-Securities and Exchange Commission.  
(The Bank of Japan)

themselves, although adjustments in other sides of the matter may also be necessary. As the Table shows internal reserves in our country have been mere settlements of the remainder of profit disposals. In other words, it represents a wrinkling result of other treatments of disposition paid out, and hence holds nothing of positive or projective character. It is such an attitude of management that must be examined by themselves. The significance that internal reserves have, along with depreciation allowances, for reasonable financial composition, and for fixed investment programs, should be properly recognized, and active plans should be established for steady increases in internal reserves, in parallel with the amount of utilized capital.

Such a notion must be thoroughly amended that conceives a fixed dividend rate, regardless of profit, as if it were a settled principle of management. And, although I think of the need for tax cut, I cannot recognize so wide a significance in it as to bring about a fundamental solution, in view of the present position of the public finance. In conclusion, attitude of enterprises toward an established principle on internal reserves would introduce a tide

that places primary importance upon internal reserves for the sake of enterprise appreciation, in capital market or in money market."

Mr. B's opinion is as follows:—

"I have no intention to deny wholly the significance of the established plan on internal reserves, but I cannot think that it would furnish basic conditions for the solution.

As seen in the Table, tax allowances are amounting to 50 per cent of profits. Since there are certainly many problems on the sources or basis of taxation, the priority must be put on tax problems.

The nature of the present corporate tax is very ambiguous; profit tax or capital tax? If it is really a profit tax upon corporate profit, equal treatment should be applied to the interests of both owned capital and external capital. This is more essential in view of the interest-like nature of dividends that is increasing. Also, such reserves that are to be the sources of fixed investment should be exempted from taxation. Anyhow, regardless of the taxation technique, a definite reduction in corporate tax is urgent, since the present capital compositions of enterprises are very unsecure. Only after this measure, the planned reserves, as you assert, could have a substantial meaning.

You say sustaining dividend rates must not be a management principle, but you are misunderstanding the character of dividend. Although it takes form of dividend for the services of capital in the past, it also makes cost for the securable, future raising of capital. In fact such a character has been formed step by step in response to the requirement of capital market, and the maintenance of dividend rate has become a sort of social custom, not to be swept away in a day."

The survey has shown:—

Supporting A's opinion .....	37 persons	12%
Supporting B's opinion .....	248 persons	82%
Other opinions .....	17 persons	6%
No answer .....	1 person	—
Total.....	303 persons	100%

Needless to say, the relative shortage of owned capital represents the discrepancy between the slow growth of capital accumulation and the rapid growth of production scale after the war. Being entangled with perplex factors, its speedy solution might be impossible. It has been derived not only from the neglect of financial problems on the side of business management, but also from the grave influences put upon the procurement and management of capital by those conditions as monetary policies, tax system, dividend practices and so on. Hence it may be even said that it was an unavoidable result from the standpoint of individual enterprise. Executive of Nihon Denki (electric equipment) has insisted concerning the problem itself: "Seemingly there lies a presupposition that relative shortage of owned capital compared with external capital is an undesirable affair. To discuss the problem without clarifying the justifiability of such a presupposition would be meaningless." Supposedly, the essential point to be asserted is that the real problem lies not in the unbalance itself, but rather, the correlations with other institutions

that have unavoidably brought about such situations should be firstly examined. Indeed, the real intention of our question is here. We have expected criticisms upon the situations from miscellaneous standpoints that entrepreneurs may have according to their experiences, especially about what processes have caused the unbalance. The result of the survey has shown an overwhelming majority supporting B's opinion.

(1) It is interesting to note that both of the two of the A's supporters, among the total of 37 persons or 12 per cent who have attached conditions are bankers. Mr. Kijimoto, a department head of Nihon Kangyo Ginko, discusses: "I agree A's opinion in principle, adjustment of the tide which tends toward high rate dividend due to scarce capital, and it is essential to enrich internal reserves. However, many factors require consideration with respect to taxation. A distinction between dividend and internal reserve regarding taxation may be unjustifiable, while a general cut in corporate tax seems difficult in view of the taxation sources. Hence, the increase in owned capital should be contrived through enlargement of the allowance systems." Executive of Shizuoka Ginko supports A in principle, though not wholly, saying: "Naturally A's opinion is demanded as a basic standpoint, but in respect of the current emphasis laid upon taxation problem as a means to adjust capital composition, B's opinion is also not to be neglected."

Number of executives supporting B counts as many as 82 per cent as shown above. Apparently they commonly fear, as is expressed by president Kato of Mitsui Zosen (shipbuilding), that ignorance of the sustained rate of dividend might "foster the emergence of speculative stocks, causing unattractiveness of the security market that would make a great obstacle for capital raising." But the main reason for supporting B's opinion by majority may rest on the point that, as an immediate problem, taxes are affecting business most seriously. President Kawai of Shizuoka Tetsudo (railroad) discusses the relationship between the problem and the growth of Japan's economy as follows: "The relative scarceness of owned capital and excess of borrowed capital, making general defects of our enterprises, are not simply the result of the tax system, but grounded more deeply. They have been derived from fundamental sicknesses such as unsatisfactory capital accumulation, imperfect assets reevaluation, inadequate disposal or reevaluation profits and instability of enterprise in management or marketing. Another reason for the worse composition is the unordinary high rate of economic growth after the war." However, as he further asserts; "This never decreases the need of tax reform. Excessive-weighty tax burden compared with the pre-war times is well known. In view of the argument discussed a few years ago upon the capitalization of the reevaluation profits that total rate of 35 per cent and corporate rate of 25 per cent might be appropriate, the tax problems should be taken up as soon as possible." President Hara of Nihon Kayaku (explosives) advocates: "Established plans for internal reserves are of course necessary, but what is more urgent is to contract endurance lives, that have been left as so long ones. As a concrete measure for it, not to speak of maximization of profits to be settled, the primary task is to cure the depreciation shortage as stated above, and to ease the

corporate tax burden. At the same time, reductions in the dividend rates that are too high compared with those in foreign countries, must be made."

President Kato of Daiwa Boseki says: "On this question, it is difficult to take a definite attitude as on the preceding question. A's opinion that the filling-up of owned capital is primarily to be dependent upon active devices of enterprises themselves, and, hence, such attitude as to place too much weight upon sustaining fixed dividend rate should be amended, may be deemed an argument that comes into the essence of enterprise. However, I cannot look over, from the viewpoint of actual position of the matter, the heavy burden of corporate tax, amounting as high as 50 per cent of profit, and the nature of dividend rate that has been often conventionally determined at capital market. Thus I agree B's opinion from the standpoint of realistic interpretation of the problem rather than theoretical rationality." President Takeda of Mitsui Soko (warehousing) argues: "Although active and well planned internal reserves are truly essential, it is also a fact that dividends are of interest-like nature for enterprises and their sustained rates make a principle of management. Internal reserves, being the remainder of profits after deducting dividends and high taxes, are generally at low rates and unavoidably exposed to severe business fluctuations by business terms. This is inevitable. Business projects should be contrived on the basis of the remaining internal reserves. Planned reserves as A urges might be impossible due to actual situations." President Takechi of Taiwan Seito (sugar) and executive of Nishimatsu Kensetsu (construction) also hold the same view. President Morishita of Nihon Seiyaku (drugs) remarks: "I approve the principle of sustained dividend rate itself, but it should not be confused with over-emphasizing external division and ignorance of internal reserve. Particularly remunerations for directors should be always decided taking account of internal reserves and dividends." We see, he is pointing out the priority of B for the actual solution of the problem, though A's opinion is also not to be looked over. Supposedly many of the B's supporters have the same view.

(2) Regarding this point some of the "other opinions" are suggesting characteristic, but delicate lines. President Adachi of Radio Tokyo says: "Broadly speaking both opinions of A and B are correct. They don't conflict each other in principal points." President Takei of Origin Denki (electric equipment) thinks: "It is difficult to make a definite selection between the emphasis on internal reserves or on taxes, a proper adjustment of both being necessary." President Kitagawa of Sumitomo Denko (electric engineering) asserts: "Fundamentally I support B. But as a tax cut might be of a limited scale as A points out, a general level-down of interest is desirable by way of liberalization of capital market and so on. A coordination of both opinions would bring about increases in international competitive power." President Hirabayashi of Tanabe Seiyaku (drugs) also emphasizes equal weight on both. Executive of Nihon Sekiyu (petroleum) discusses: "For a healthy financial policy internal reserves should be decided first before dividends, but the nature of dividend as an expense for the security of future capital raising cannot be denied, although it must not be of so high a rate as is often taken regardless

of reserves for the purpose of catching public fancy. It must be a planned, proper rate, taking into account a healthy financial composition extending to the future. On the other side, the high tax rate, 50 per cent of profit, is making a factor impeding internal reserves. In conclusion, the primary task is capital accumulation, that might occasionally cause reduction in dividends. However, as the tradition grown in our capital market is too rigid to be overcome by enterprises, official measures such as tax cut or growing up of sound capital market must be taken as joint efforts." Views with quite similar meaning have been expressed by director Takano of Takano Kensetsu (construction), executives of Hitachi Koki (machinery), Shinto Toryo (paints), Takashimaya (department store), Kyokuichi Shine Kogyo (textile processing) and Nihon Kogaku (optical goods). These opinions are holding criticisms toward customary business management in this country, beyond mere synthesis or compromise to either A or B and they are highly esteemed.

(3) This question does not intend to survey the methods of tax reduction, but 80 per cent of the answers with some observations attached are referring to this problem, showing the urgency of the matter. Opinions on the methods are classified into:

a) Executives of Osaka Sanso Kogyo (oxygen), Kyoritsu Kisen (shipping), and Nitto Ryuso (soda) claim non-tax on dividends, while executive of Daido Senko (dyeing), in addition, asserts necessity of corporate tax reduction by one half.

b) President Fukazawa of Shindengenkogyo (electric equipment) advocates to separate dividends into two parts, ordinary and special, and to tax special dividends only. Director Nakamura of Kanegafuchi Boseki (spinning) discusses: "What is urgent is the reductions in the present tax and interest rates, since these are impeding improvement of capital composition. Filling-up of owned capital should be promoted by progressive tax rates, while as for dividend up to a certain rate loss treatment should be acknowledged." Executive of Yuasa Denchi (electric battery) also takes a same view.

(4) Non-tax or low-tax rate on internal reserves has been urged by executives of Osaka Yogyo Cement, Dainichi Seika Kogyo (chemicals), and Nihon Seito (sugar). President Nagataki of Tokyo Kasei (chemicals) asserts: "to tax reserves for dividends, but not to tax reserves for research works, provided that the latter will be taxed when paid out as dividends in recession times."

(5) Executive of Hokushin Denki (electric equipment) advocates the cost treatment of a certain part of dividends (say, 10 per cent) and non-tax on a certain part of internal reserves (say, legal reserves). President Ohara of Fuji Boseki (spinning) approves the loss treatment of a part of dividend payment as much as about interest. Executive of Kirin Beer argues the necessity of dividend limitation as follows: "Mere reduction in corporate tax would not always lead to the increases in internal reserves since it might be flown out as dividend increases. Hence, beside tax cut, dividend limitation must be taken as a fundamental solution for the filling-up of owned capital. Capital increase should be promoted to enforce dividend limitation, since the latter is

hard to be put into practice. For that purpose tax exemption for dividends of increased capital should be adopted." Dividend limitation is urged also by executive of Tokyo Sharyo (car maker). Executive of Nikkei Alumi claims the increase in the legal reserve rate above the present 5 per cent.

### **3) Budget Control System**

Budget system, spreading generally over most of our big enterprises today, has an essential implication for management that performs a function to link organically the profitability of an enterprise as a whole and the responsibility of personnels in charge of respective departments. Our question is: on which of the two, profitability and departmental responsibility, should emphasis be laid by top executives?

Mr. A's opinion is as follows:—

"As for the question of selecting one of the two, I should like to take profitability since it is the core of business. However, following the growth of business scales more or less, personnels managing respective departments or sections are apt to become indifferent to the relationship between their specialized jobs and the profitability of the whole business, in contrast to the enthusiasm, even a perfectionism, upon their own jobs. This may be an unavoidable result of job specialization. Hereupon budget system has a meaning, since it clarifies the profitability of the whole business with respect to business principles, and on the basis of profitability it furnishes a structure in which individual department or section could lay down its respective sphere of responsibility. Therefore, budget policies to be established by top management should be in principle such that settles profit and cost plans in some concreteness, on which business plans of departments or sections are to be based. This may seem to imply an oppression upon creativeness of divisions. But, we believe, executives could be the real bearers of management, only when there are perfect recognition of the relations between the functions they are charged of and the profitability as a whole."

Mr. B argues against this:—

"I wish to put weight rather on the side of enhancing responsibility. With the growth of business scales, bureaucratic mood is apt to emerge, especially in our country. Then, ways of thinking of personnels in charge of management would fall into formalism, conventionalism and conservatism, losing lively originality. Therefore, in enterprise of such a scale which have to depend upon budget policies, foundations of business development should be primarily found in the reflections upon these mental sides and enhancement of creative responsibility consciousness.

Hence, budgeting policies that stem from top-management should be as simple as possible, leaving material formation or modulation at independent treatment of the personnels in charge. Top management's concern with budget, in its concrete business side, should be confined to plannings of equipment, and that, only to principal ones.

In short, the profitability must be secured on the foundations of such

creative mind, and budget system should be managed so as to render effective opportunities to stress and spread such consciousness."

The survey has shown:—

Supporting A's opinion .....	192 persons	66%
Supporting B's opinion .....	79 persons	24%
Other opinions .....	31 persons	10%
No answer .....	1 person	—
Total.....	303 persons	100%

Apart from the difference between the two opinions, modern budget system is pointing to will-intercourse between top executive and department management. Judging from the result of the survey, we see that cases are fairly numerous when top executive must act under a thinking way of concentrative controlling, for the solution of problems concerned. However, those who support decentrative idea, as B asserts, have shown a large number as 79 persons, 24 per cent of the total, which is beyond our expectation. And, an analysis of the qualifications attached reveals a fact that realization upon B's opinion has been generally at higher degree than what figure shows. In this sense, we feel, synthetic or compromise views represent the general attitude for the operation of budget system. Firstly we shall see views supporting A.

(1) President Domen of Ajinomoto (flavor foods) remarks: "I am rather for A's opinion, but flexible management of the system is necessary so as to prevent formalism and inelasticity. President Takeda of Mitsui Soko (warehousing) states: "Enterprise pursues profit as the final end. Budget system should be utilized in order to make a synthetic plan on the basis of this end, and to require efforts of departments in performing the plan. Hence, an organic combination of profitability and responsibility is necessary for the full exhibition of budget function, but main weight has to be put on profitability." President Sabukawa of Tokai Denkyoku (electrode) says: "I support A in general. But in view of the fact that it often does not fit to the changing economic situations, a policy must be made clear that department manager can take necessary measures in accordance with the changes, after reporting them to top executives." He is insisting that concrete budgets should be authorized by top executives, though they should be prepared by personnels in charge. Executive of Nihon Denki (electric equipment) argues: "Responsibility is a measure and profitability is an object. As an object without a measure is unthinkable, there should be no difference between them from the standpoint of budget management." President Morishita of Nihon Shinyaku (drugs) argues: "I don't think profitability denies responsibility. Rather, responsibility as a subjective factor should be made present proportionally on the grounds of profitability." President Takechi of Taiwan Seito (sugar) says: "So-called top management should take a leading position on the basis of profitability and responsibility." Such views that take A's opinion in principle but do not necessarily stick to it have been expressed by executives of Mitsui Zosen (shipbuilding), Takano Kensetsu (construction), Takashimaya (department store), Nikkei Alumi, Osaka Yogyo Cement, Marukin Shoyu (soy sauce), Isuzu Jidosha (automobile), Nishimatsu Kensetsu (construction).



On the other side, executive of Kirin Beer also suggests the study of proposition-system to give lives to creative ideas, and executive of Daido Senko (dyeing) goes as far as to state, "B's opinion is helpful to stimulate creative ideas of personnels in charge, but it is often dangerous for big enterprises since it is apt to derive too much independency and hurriness."

(2) On the other side, qualifications attached to the views supporting B's opinion are as follows: "Budget policy that places emphasis on responsibility of departments should be adopted. It is better to respect responsibility and competence of departments, and to contrive long term budget of the whole business on the grounds of aggregated short-term budgets for departments and whole business." They assert a fairly thorough going decentrative control. Executive of Shizuoka Ginko (bank) advocates: "A is concentrative and B is decentrative so to speak. Although decentrative management is desirable today, at least for manufacturing, where production items are numerous and scales are large, it must be founded on independent profitability. This means responsibility on profit control must be taken by personnels in charge of respective departments and top executive should perform general control." He explains its relation to department system in this way. President Takeda of Takeda Yakuhin (drugs) remarks, "fundamentally I agree B, provided that profitability is also not neglected or disregarded." President Takei of Origin Denki (electric parts goods) stresses an organic combination of profitability and responsibility, saying, "to speak of the degree of weight, I would put it rather on the side of responsibility so far the present big businesses are concerned." President Ohara of Fuji Boseki (spinning) argues: "Budget policy should be simple and its concrete preparation should be entrusted to managing personnels of departments. Top management examines and coordinates them from the viewpoint of profitability of the whole business. It is necessary to make full use of creative ideas of managing personnels for the increase in profitability as a whole." Almost the same view has been shown by executives of Nihon Sekiyu (petroleum), Shionogi Seiyaku (drugs) and Kyokuichi Shine (textile processing).

(3) One of the typical "other opinions" stresses effective enforcement of both opinions, inclining to neither of them. President Kato of Daiwa Boseki (spinning) illustrates the reason for the in-between view as follows: "The main point of A rests on; (1) The final object of enterprise is in pursuit of profit that relates to profitability; (2) Since the responsibility of expenditure is charged by top-management, his policies must spread themselves through budget. The responsibility and originality of departments should be utilized on the basis of budget founded on profitability; (3) To allow too much independence of departments would result in deviation and dogmatism, and hence it will become obstacles for management. These points of argument are approvable, but practical devices to prevent bureaucratism and to develop responsible mind are also to be esteemed." Director Nakamura of Kanegafuchi Boseki (spinning) develops decentrative idea regarding budget preparation as follows: "It is better to lay down budget policies fully taking opinions of concerned personnels into account through budget committee, that conforms

profitability, and to entrust their concrete preparation to voluntary actions of the managing personnels." Executive of Marubeni (trading) discusses: "A definite selection between A and B is difficult. Particularly weight should be put in response to the requirements of the times. As budget system in trading company is closely linked to money budget, and such one is required that takes wide views on foreign market positions and perspectives on domestic economy, further study should be made in line with both A and B." President Hirabayashi of Tanabe Seiyaku (drugs) argues: "Responsibility of sectorial activities is based on profitability of the whole business, while profitability is realized as the result of responsibility. Of course budget should be laid down on the basis of both earnings and expenses, with regard to the sectors as well as the whole, and particularly it should be framed taking payments that follow receipts into account. So far the budget is pierced through by a sense of responsibility as its backbone, that is, factual calculation. In this sense the two should make up one entirety." Such a way of thinking that responsibility and profitability combine themselves through execution holds other nuance than the view held by Mr. Nakamura. A similar view has been expressed by executive of Daido Keori (wool spinning). Answer that synthesizes both in a rather simple way has been made by executives of Nihon Piston Ring, Kanematsu (trading), Aichi Kogyo (engineering), Nitto Kinzoku Kozan (metal mining), Fuji Film, Nihon Kangyo Ginko (bank), and Daiichi Cement. President Hayashi of Mitsui Senpaku (shipping) argues speciality of finance business in relation to the dynamic nature of the problem, saying: "In the case of our company, distinction about the priority between responsibility and profitability shall not be considered. At present both must be stressed. In case of future stage where systems are completed, profitability as a whole business would be emphasized in view of the nature of our business."

(4) Several answers are pointing out the relationship between the problem and the particularity of business organization. Here the particularity does not regard to that of specific category of business, but relations between jobs with respect to responsibility, competence and duty. Executive of Konishiroku (film) holds: "The problem of responsibility cannot be uniformly explained since it holds different significances according to the structure of management. In case of functional structure A is adequate while by department system B is better." Views of the like have been presented by executives of Lion Yushi (fat and oil), Toyo Boseki (spinning), Shibusawa Soko (warehousing), Shin-nikkoku Kogyo (engineering), Sumitomo Kagaku (chemicals), Toyo Koatsu (chemicals), Osaka Sharin Seizo (wheels) and Naigai Amimono (knitworks). This argument may be reasonable in a sense. But we think, regardless of whatever a form an enterprise may take, the problem of deciding to put more weight on either A or B would always arise, from the standpoint of management. For instance it is doubtful whether we could say that mere aggregation of the budgets of departments is sufficient since department system is employed. We could think of stages through which department system with a high degree of independence for each department is formed step by step, while head management strengthens its leadership through minute budget

policies, laid down by many personnels of staffs. We think such stages are coming near in Japan. Again, functional organization is not always concentrative. While top management intends to develop budget policies with highly theoretical values, in practice empirical values presented by respective specialized sectors cannot be ignored. Functional organization can be most skillfully operated when empirical values are fully appreciated and utilized as foundations for budgeting. It is always human being that operates function. Real problem lies in the fact that we cannot say, "budget management must be such and such since organization is such and such." This is the reason why we have taken up the problem.

(5) Lastly we want to speak a word about the proposition of the problem itself. Answers from five enterprises have expressed doubts on the proposition. Executive of Dainihon Boseki remarks: "The form of the question that asks selection between A and B is unreasonable in itself. A's is downward view while B's is upward one. Coordination of the two will make a perfect one." Executive of Aso Sangyo (mining) criticizes: "Selection between the two is not so essential a matter," while executive of Sumitomo Kinzoku (metal mining) argues: "Since budget system is a synthesis of not only profitability and responsibility, but also other factors as stability or creativeness, to pick up and discuss only two of them is meaningless." Executive of Sanyo Pulp urges, "to put main point upon efficiency of departments on the grounds of entirety consciousness rather than profitability and responsibility." We acknowledge some reasons respectively in these arguments. However, we are not expecting discussions on the character of budget system in general. We are assuming, as the opening words have shown, budget system as a means of business management, in order to bring about harmony between the responsibility of personnels in charge of departments, so minutely divided, and the profitability of the whole. In any way, one of the characteristics of the modern business lies in decentralization. We have an opinion that the significance of decentralization for the whole business, not a sector of it, is to be reflected ultimately and most distinctly upon the management of budget system. This is because budget, as a means of management, is related to whole enterprise. As we see it, budget system is in a process of continued development in its substance, in response to the economic conditions, inside as well as outside of enterprise. Will of top management that grounds itself on the recognition of the conditions should be appreciated fully. The meaning of the question lies in our intention to clarify a facet of the trend of decentralization from the viewpoint of its relation to management consciousness.

#### **4) *Internal Audit System***

Internal audit system has been recently recognized as the most effective means of business rationalization in big enterprises, and has been brought into systematization step by step. The question is, how should its character be grasped by top management for the sake of the most effective utilization. To this question—

Mr. A's opinion is as follows:—

“Audit system has been devised, in its origin, through bitter experiences about malpractices of employees. It is the wiping out of injustice that we expect on internal audit.

Recent remarkable progresses in internal audit system and business mechanization are apt to lead us to a misconception that dishonest act would be automatically detected by other measures of management to some extent.

In practice, however, prevention of malpractices is possible only by internal audit. Regardless of the advances in other measures, audit should bear the function to wipe out injustice. Executives are wishing nothing more than this.”

Mr. B replies: “I think, such a function, that has been put upon audit system until now, is gradually losing its significance, following the completion of management system and progress of mechanization.

I do not ignore the function of purification, but executives now are not wishing internal audit of the like sense. In other words, they are expecting a big turn in its character and more positive function. The substantial area of its function should be business audit in a wider sense. For the present, it should bear such functions as to find out causes of the effectiveness or ineffectiveness of businesses, and to advice or propose improvements in the systems or measures affecting them, and further to perform business audit and business planning of connected enterprises and to examine the results.

The reasons for the defects of financial constitutions in our enterprises, despite their improved efficiency, may be numerous, but the principal one is to be found in the absence of strict and authoritative internal audit. I think it is the time now to recognize the significance of internal audit for the healthy development of Japan's enterprises.”

The survey has shown:—

Supporting A's opinion .....	24 persons	8%
Supporting B's opinion .....	269 persons	89%
Other opinions .....	7 persons	2%
No answer .....	3 persons	1%
Total.....	303 persons	100%

In regard to this problem, the most one-sided result has been shown. Supporters of A's opinion are a small number, but some of the qualifications attached there are meaningful. Also qualifications of B's supporters are various, suggesting many problems that should be considered. There have been no unconditional supporters.

(1) Firstly we shall see the qualifications attached by B's supporters. President Kato of Daiwa Boseki (spinning) points out that business audit has been contrived primarily by the demands on audit by executives and discusses as follows: “Primarily internal audit is to be created by the initiative of top management themselves for the grasp of business situations. It should perform as far as business audit, efficiency audit, and result audit, but should not touch line operations. Purification of injustice is indispensable but as function being too narrow, it could be achieved by setting up restraining

systems or by subsidiary efforts of the above mentioned audits. But the problems are in the possibility of finding adequate personnels in charge, with perfect ability and experience, and in the fear of troubles with operation departments due to functional duplications. Therefore, a proper judgement based on the scale and organization of business is necessary." President Hara of Nihon Kayaku (explosives) argues: "Certified accountant system is confined to audit on accounting figures. Internal audit will become more and more necessary following the scale and perplexity of business organization."

President Domen of Ajinomoto (flavor foods) points out the limit of audit business as follows: "Purification by internal audit is not to be neglected, but to expect too much on it is a mistake. In principle, it is desirable to narrow the rooms for injustice by adopting internal check system. And, as for the principle of audit, it should set up operational proceedings of businesses to be followed, to examine whether they are observed or not, and to find out difficulties when they are not observed, and supply materials for improvement when needed. To expect more over these lines are not desirable from the standpoint of business management." Director Nakamura of Kanegafuchi Boseki (spinning) urges: "It should be advices and recommendations for the creation of basic systems to prevent malpractices and mistakes." President Takeda of Mitsui Soko (warehousing) states, "Internal audit must not be to point out dishonest acts but lay down internal organization to prevent them, to examine whether daily works are going smoothly on the grounds of established organization, and further to proceed to business audit and efficiency audit of connected enterprises."

Anyhow, a fear of obstacles on business to be possibly caused by exposing malpractices has led many answerers toward B's opinion. This has been most clearly expressed by executives of Tanabe Seiyaku (drugs) and Shibusawa Soko (warehousing).

Another problem concerning audit system regards to the personnels in charge. On this point, President Takeda of Takeda Yakuhin (drugs) argues: "Theoretically B is approvable. But men of the ability to execute business management might find out and amend their own defects when they come to the positions of planning and control. Hence, in practice, the role urged by A may be more essential." Executive of Kirin Beer explains that such business controls are "primary audit" which is performed by personnels in charge of respective departments as proper tasks, and "examination of the efficiency of such controls is secondary control, that is, internal audit;" and further he refers to the relation to department system, saying: "In decentrative management, controls by central offices must be performed through powerful organization. Internal audit it to hold the central position in it with marked significance." This view may be contrasted to that of executive of Shionogi who inclines to "accounting audit" saying, "it is important for audit to introduce self-control and self-audit by individuals by way of clarifying their respective responsibilities and reporting their business results in contrast to expenses." Executive of Shizuoka Ginko (bank) states that such a wide scope of business audit as urged by B might be right as a line to proceed, but it is

hardly expected at the present system and, in order to enforce it, control system must be created perfectly as a staff department. Director Usui of Kawasaki Kasei (chemicals) criticizes that the intention to recognize all functions that should be primarily attached to controlling as the function of audit implies too positive a thinking, that has been advocated by scholars and business circles. The same view is taken by executive of Takashimaya (department store).

(2) As seen in the above observations of B's supporters, B's opinion is problematic with regard to organization. This point makes the reason for A's supporters being unable to incline to B's view. It is particularly expressed by executive of Nihon Denki (electric equipment) who argues: "B's opinion has a touch of confusion between the function of audit system as an organization and audit activities as a function of business operation. Business operation naturally includes business audit and efficiency audit, which have been carried on by many sections such as budget section, cost section, production control section, I.E. section or that in charge of connected enterprises as a proper task of their own. These activities must be active, but it does not lead to a conclusion that audit section or audit room as organization should enter the audit of business seriously. Often foreign literatures are stressing business audit as a part of audit, but it is not always discussed as a task of audit section. It is too hasty to look that internal audit equals the task of audit section. Internal audit is important, but an illusion must be avoided that it must be performed by audit section." This argument is requiring cautious attitude of executives on the problem, so that there will be no contradiction between organization and function. Executive of Harima Zosen discusses, keeping in mind such a possible contradiction, that business audit will become more and more necessary in parallel with the enlargement of business scale, which in turn will make it more difficult or even impossible; rather superior way may be to set up "engineering section" in each production department, in order to cover the difficulties. Executive of Kyokuichi Shine (textile processing) says: "Tasks urged by B are hard for internal audit and not proper. Its primary duty lies in the observation of rules and prevention of injustice, which will become hard to perform when tasks are expanded as B claims. Such tasks should be borne by general staffs."

### 5) *Concept of Real Cost*

It has been generally accepted that the essence of corporate accounting is to be found in the so-called "report system accounting" that communicates exact results of capital utilization to stockholders, to creditors or to other people who have interest on the problem. However, a new trend of "management accounting" has evidently emerged that stresses, as its essence, function as a tool for policy making or controlling in enterprise, since accounting is one sector of management system. To adopt which of the two has serious effects upon the structure and appreciation of finance. The two opposing standpoints are most clearly represented in the concept of "real cost". Then what is real cost? On this problem—

Mr. A's opinion is as follows:—

"I think real cost means standard cost. There may be various implications of "standard", but it is mainly standard cost that has been used for business control. In every case when a reasonable solution is required about profit planning, budgeting, equipment planning, operation rate or pricing policy, it is standard cost that makes the focal point. Centering around standard cost, business policies will be settled, and operations of executives and workers will be unified, bringing about actual results. Therefore a scheme should be devised in costing system to compute factual cost, pointing to the introduction of standard cost. Generally speaking, accounting system without standard cost scheme would be economically meaningless.

And, also to cost education in enterprise, the object of cost-cut may be attained only by implanting standard cost consciousness. Still more it takes the central position among all endeavors for standardization.

In conclusion, reasonable foundations of profitability may be laid down by thorough going standard cost consciousness through all management groups of upper, middle and lower classes, and in turn, the results of capital management with such responsibility would be beneficial also for interested circles outside."

Mr. B argues as follows:—

"I think real cost is the factual cost that has really emerged in the business process, or historical cost. You appreciate standard cost, but it must face severe limitations. Standardized considerations upon all of the factors affecting cost are impossible. In other words, factual cost is derived on the grounds of perplexed effects of numerous factors inside as well as outside of enterprise. To speak of cost-responsibility, contrasting factual cost and standard cost, seems meaningless to me, even if it may be computable.

Of course, I am not saying that standard cost is useless everywhere. The degrees of standardization of business conditions differ a great deal according to enterprises or sectors. In such sectors where standardization is at high degree, there may be rooms for utilizing standard cost. But it is nothing more than this. In this sense, its significance equals to that of quality standard or sales standard. Responsibility on management could be provided when these standards have been in order. Cost calculation system should be directed so as to set up a scheme to compute costs, exactly and speedily as far as possible, that have emerged actually under influences from inside and outside of enterprise. Foundations for accurate business plans are obtainable only through such a preparation. Also, as for cost education, its main purpose should be based upon a full recognition of the processes in which cost has been formed actually. This makes the basic premise for cost reduction. Decision and utilization of standard cost should be carried on by specialized division."

The survey has shown:—

Supporting A's opinion .....	138 persons	45%
Supporting B's opinion .....	126 persons	42%
Other opinions .....	29 persons	10%
No answer .....	10 persons	3%
Total.....	303 persons	100%

The pattern of modern business accounting is that the values are composed of factual values and standard values, delicately interrelating with each other. It is unjustifiable to adopt the one, eliminating the other. The intention of our question is to survey on which of the two values business executives are putting more weight in deciding daily problems. It is of great interest that the survey has shown more emphasis on standard cost than factual cost. It tells the fact that in a wide area of business quarters cost control has been demanded as a problem of enterprise-wide-controlling.

(1) In the qualifications of the supporters of A's opinion, who argue real cost means standard cost, we can find various points that we have not taken up in the question. Executive of Nihon Denki urges minute examination of the process of computation and says: "Fundamentally I agree A's opinion, but it must be supported by the theory of normal cost. It is normal cost that can be considered as real cost. A's opinion is approvable when normal cost is taken as standard cost." Perhaps there may be various arguments on the definition of normal cost, but a most popular one is that it means average cost to be obtained through business cycles. Anyhow, the answer seems to argue that standard cost must not be a mere conception but be grasped on the foundation of exact factual cost. About this point executive of Yuasa Denchi (electric battery) also discusses: "A's view is agreeable, but only in such a phase where standard cost is reasonable as accumulation of historical cost. In case of standard cost without solid foundation, I am rather for B's opinion." President Ohara of Fuji Boseki (spinning) expresses that when such foundations are provided and "the difference between the two is not so large, it may be appropriate to use standard cost in report-accounting to stockholders and creditors." Anyhow it is doubtless that such "foundation" has an essential meaning. As regards the foundation, executive of Daido Keori asserts: "Consolidations of standard cost and standard materials volume should be endeavored in parallel. Though perfect ones may be impossible, the endeavors have a significance in themselves." Executive of Daido Senko (dyeing) asserts, "to calculate exact standard cost, and by contrasting to factual cost, to reexamine the standard." Executive of Aichi Kogyo (engineering) thinks, "standard cost should not be deemed improper by reason of difficulties of standardization, but should be taken as an objective for the attempt to approach it." Executive of Shizuoka Ginko (bank) urges to take "standardness-character" of cost and materials volume into account and "to adopt standard cost into accounting system step by step." President Kinoshita of Ichikawa Keori and director Kondo of Ishikawajima Juko (engineering) also state the same view. Executive of Takashimaya (department store) emphasizes its relation with factual cost because, "even by A's opinion an exact recognition of the process of factual cost is necessary." The same view has been expressed by director Usui of Kawasaki Kasei (chemicals) and executive of Nihon Gaishi (insulator).

(2) Several answers are laying stress on the relationship between standard cost and stability of Japanese economy. President Hirabayashi of Tanabe Seiyaku (drugs) expresses a fear that standard cost is to be derived from piling up factual costs and stabilized business which, however, will be ham-



perd by the unstabilized Japan's economy. Executive of Iino Kaiun says "B's view is proper so long as the economy is not stabilized." Also executive of Mitsui Zosen remarks, "as operation rates in Japan are not stabilized, it is doubtful that enterprises can use standard values as a standard in real sense, and hence factual cost is the only factor to be relied upon." Executive Daiichi Kogyo Seiyaku (drugs) has a similar view. President Sabukawa of Tokai Denkyoku says: "In such cases where supplies of electric power show wide fluctuations according to rainy or dry season, or operation rates change extremely, or ratios of input and output in production are divergent due to differentials in equipment, or production scales are small with diversified items, a perfect result of standard cost could not be expected. In this sense, we are adopting factual cost for the accounting system and execute cost control by analysis of differentials between factual cost and budget cost." Apparently most executives recognize grave difficulties as above mentioned in the practical use of standard cost, although they acknowledge its significance theoretically.

(3) Next we shall see qualifications attached by B's supporters. President Kato of Daiwa Boseki discusses as follows: "Customary accounting starts from confirmation (and report) of business results, and proceeds to reflection on the past and planning for the future. Standard cost can be valuable as a controlling measure to help reflection and planning, but only within these bounds. The confirmation (and report) of business results are demanded not only by enterprises themselves, but also by investors, by creditors and by the public, not to speak of the opening of accounts, external audit or report to stockholders pursuant to the Security Exchange Act. It has a wider scope than internal control, and makes a reason for the necessity of fairness in management. Standard cost as a measure for control, therefore, should be used as a subsidiary one in the sphere of control, according to the object. Bringing standard cost into accounting system to achieve simultaneously both objects of report and controlling may be ideal, but in practical use it can not be popularly used because of a technical difficulty, that is, the balance adjustment, required by the tax law. Thus, in corporate accounting, real cost is to be factual cost, namely the result, and nothing more. To speak more directly, standard cost itself is founded on real cost, and the primary objective of inquiring into the cost responsibility lies in the cut of real cost. Standard cost is an operational measure for cost control, not the cost itself. In other words, factual cost is primary and standard cost is subsidiary. Thus Mr. Kato argues that real cost is factual cost, decreases in which are directly concerning cost responsibility, and standard cost is nothing but a step toward it. Similar views have been presented by executives of Mitsui Soko (warehousing), Chiyoda Kako Kensetsu (chemical engineering), Ishizuka Glass, Nihon Pulp, Kyoritsu Kisen (shipping), Taiwan Seito (sugar). In contrast to this, Director Nakamura of Kanegafuchi Boseki (spinning) supports B's opinion, taking the qualitative and quantitative identity of standard values and factual values into account. He says: "A measure should be contrived economically fitting to the particularity of each enterprise. In cotton spinning industry, as

the production methods and qualities and volumes of materials are standardized, such an accounting system is adopted in which standard processing cost is always computed by pertinent exchange rates, and operations are continuous, real cost can be utilized as standard cost or cost for control. In view of these particular reasons, I agree B."

As has been illustrated above, supporters of A and B are not conflicting with each other but in close mutual connections. However, they are putting more weight respectively upon one of the two in conclusions. On the contrary most of the other opinions are compromise ones, observing the significance of the two in equal degree. President Domen of Ajinomoto (flavor foods) argues: "It is natural that the two trends of accounting will become more and more differentiated. As regards the costs, they are shown as factual cost and control cost, but it cannot be concluded that one of the two is more essential for business. Since the so-called report accounting is strictly subject to the tax law, the cost pursuant to the law cannot be ignored. However, on the other hand, in business control such mistakes that make decisions on the basis of taxation cost must be avoided. The meaning of standard cost is not necessarily clear, but so long as it means normal cost under a given condition, it is essential for business control." President Hara of Nihon Kogaku urges: "As standard cost will be revised in course of time, it should be utilized side by side with report accounting, in view of the actual practices and the regulations by the law. This will bring about perplexity and expansion of accounting system in some degree, but they are inevitable defects." President Takei of Orijin Denki (electric equipment) points out that both costs have respective particular purposes, supplementing each other. Almost similar views have been expressed by executives of Toho Gas, Dainihon Boseki (spinning), Nihon Piston Ring, Nihon Sharyo Kogyo (wheels), Kumazawa Seiyu (soy), Fujikura Gum, Nihon Kako Seishi (paper processing), Nihon Kangyo Ginko (bank) and Tohoku Denki Seitetsu (steel).

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#### Summaries:

- (1) As it is shown in the answering rate itself, concern of top management on the rationalization of business finance is very sincere.
- (2) As for depreciation system, contraction of depreciation terms and general or partial widening of the rooms for arbitrary depreciation are earnestly desired.
- (3) Corporate tax has been intensely criticized, and opinion of the majority takes its revision as a premise for financial rationalization.
- (4) Regarding budget system, opinion of the majority asserts concentrative management, but not a few recognize the necessity of decentralized system.
- (5) Upon internal audit and concept of cost, a fundamental shift from the traditional idea is fairly evident.