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HAKUYOSHA COMPANY LTD.*

I. Introduction

(1) Recent Trends of the Cleaning Service Circles

Amidst the sustaining prosperity of Japanese economy, a relatively mild and peaceful situation has been maintained in the cleaning service circles notwithstanding their small-scale business, compared with other business circles, and attendant premodernity. In the moment of recession of the last several years, however, the modernization has come about to this business, too. Thus the movements in recent years have been as follows.

In 1963, reflecting the national economy of this year, when various measures for business recovery were taken, the distribution revolution attacked the cleaning business, bringing about low-price shops or "coin of cleaners" in some districts of country. Being stimulated by these movements, gradually signs of actions toward rationalization of management came to be seen — such as cooperation and mechanization, the birth of American-type shops utilizing automatic washing machines, and in general the extension of discount mood. On the other hand, firms of "linen supply," a new line of business, increased counting ten-odd shops extending over the whole country.

In 1964, in the aspect of economy there was seen strong propensity to consume, as economic-adjustment policies had been taken since the end of preceding year. Under such a situation, in the cleaning business, being supported by intensive demands for the service, managerial rationalization and equipment modernization were further promoted.

1965 was a year of hardship to the national economy due to the pile-up of distortions accompanying rapid growth, and in the cleaning business there were emerged various changes, partly due to bad weather. That is to say, shops equipped with owned drying machines showed a rapid increase on the one hand, and there was seen a trend of increasing agent shops on the basis of wholesale on the other hand.

In 1966, such a stagnant mood stepped toward softening to some extent,

*This case has been prepared by the support of the Hakuyosha Co., Ltd. It aims to be a material for class discussion, with no intention to illustrate examples of correct or incorrect treatment on administrative problems. The writers are Matsutaro Wadaki of Keio University and Hiroshi Sakaguchi of Josai University.

yet the improvement was not so much as to be called better-off; the trend of contraction and economy still remained in consumers. In the cleaning circles low-price firms took action briskly in the spring, and there were born successively new entrants of coin shop system in various parts of the country. Such a boom, however, was settled down by the summer. Price-cut competition was led first by dry cleaning, which was more profitable than laundry, and then expanded into all items.¹⁾ On the other hand, among the business new sense and active moves to improvement were being promoted, thus reforming the traditional constitution of the business itself.

Exhibit 1. Number of Cleaning Firms in Japan

Year	Firms	Comparison with Previous Year
1960	36,561	100 %
1961	38,376	105
1962	39,443	103
1963	41,183	104
1964	46,775	113.7
1965	53,238	114.2
1966	61,859	116.2

Source: from a newspaper of the industry

(2) History and Current State of Hakuyosha

The history of Hakuyosha (Joint Stock) Company dates back to some sixty years ago (1906) when Kenji Igarashi initiated at Shibuya, Tokyo, the first cleaning business in Japan. Its performance showed gradual growth in accompany with the popularization of European-mode clothes, and in 1920 the firm was reorganized into joint stock system and K. Igarashi took office of the first president. The initial amount of capital was 250 thousand yen, and there were two branches in Tokyo and Nagoya.

Since its foundation the motto of the Company has been "Christian Spirit." It was conscious of its public mission and continually strove to make one's life brighter, prettier and healthier by removing bacillus and dust from clothing and other materials, and by contributing improvements in family and society's environmental hygiene.

The business line of the Company was not only of cleaning, but a wide range from repairing of household metal goods to improving the worker's environment of important industries through linen supply.

Since introducing dry cleaning into Japan, the Company has continued its growth overcoming many hardships, and today, with the use of automatic washing machines, has devoted more efforts to advance into the world market.

1) Price-cut competition began first in Kyushu district, and then extended to Hiroshima, Osaka, Aichi, Shizuoka, Tokyo and Hokkaido.

The development of business is shown in the transition of capital amount in recent years. In 1963 the amount was increased to 500 million yen, succeeding a previous year's increase, and in 1964 was further increased to 700 million yen by including a capital reserve of 200 million yen for the aim of fulfilling capital. Later an increase of 1966 boosted the capital to 1 billion yen, thus showing rapid expansion.

Meanwhile the Company has made incessant efforts to attain higher productivity by building and reconstruction of plants, repletion of facilities and machinery and development of new techniques, and improve services to customers by expansion of new shops. The present President T. Igarashi is now entertaining a fear of excessive competition sooner or later in despite of a prospect of demand growth in view of the trend in America.

II. Outline of Production and Sales

Cleaning business is a service industry. The business pattern is to keep customer's articles, work washing, dyeing or repair on them, and to receive charges for the work, that is, charges for technique and commission. The customers involve individual persons, societies, other cleaning firms and so on. The primary object, however, is individuals, and hence business network must be widely established to meet demands. Because of this feature, the Company holds many branches, plants, shops and service shops — numerous in comparison with the capital amount.

(1) Production

Facilities of cleaning business can be conceptionally divided into those related to sales operation and those to work operation. However, actually the two operations are inseparable and so the Company combines both as a branch unit in principle.

In the aspect of production, the Company has made consistent efforts of renewal and expansion of plant equipment. In the personnel aspect, the Company's policy has been to check increase of workers as far as possible by disposing any expansion of business volume by means of mechanization of production and rationalization in work process, especially that of subsidiary section work such as sorting.

Exhibit 2. State of Employees (1)

Establishment	Term 61	Term 62	Term 63	Term 64	Term 65	Term 66
Branch	188	181	195	187	193	174
Plant	823	766	841	760	824	731
Shop	846	823	941	938	982	906
Main Office	58	58	65	51	68	58
Total	1,915	1,828	2,042	1,936	2,067	1,869

Source: The Company

Note: See next page's footnote 1).

Exhibit 3. State of Employees (2)

Sex and Post	Term 61		Term 62		Term 63	
	Em- ployees	Av. Age	Em- ployees	Av. Age	Em- ployees	Av. Age
Male { Office	163	40.2	173	39.5	186	38.9
Male { Plant	743	26.1	714	30.2	787	27.4
Female { Office	166	26.9	149	27.8	174	27.1
Female { Plant	843	25.9	792	26.8	895	26.4
Total and Average Age	1,915	27.8	1,828	28.5	2,042	27.1

Sex and Post	Term 64		Term 65		Term 66	
	Em- ployees	Av. Age	Em- ployees	Av. Age	Em- ployees	Av. Age
Male { Office	176	40.4	190	39.9	192	40.6
Male { Plant	791	27.9	830	27.0	744	27.4
Female { Office	166	28.4	182	27.8	162	28.5
Female { Plant	803	26.8	865	26.2	772	26.8
Total and Average Age	1,936	28.6	2,067	27.1	1,869	28.6

Source: The Company

The expansion of facilities in recent years was as follows.

In 1963 new plants were constructed in Nagoya and Kobe, and equipment of Ofuna plant was enlarged. In many plants equipment renewal was performed, such as introduction of new-design cleaning machines and laundry-related machines. As a part of rationalization of process control in main places of the country storehouses of clothes were established so that articles of seasonal nature — such as overcoat, carpet, summer clothes, etc. — might be dealt with off-seasons relatively. As the result the Company could accomplish cutting extra workers employed at busy seasons and balancing actual operation which had been showing seasonal fluctuations.²⁾

The year 1964 saw the completion of Ofuna plant, equipment replacement of Tokyo, Sendai and other plants, new foundation of Tanashi (near Tokyo) plant in order to meet increasing demands in Tokyo, and the start of reconstruction of Shibuya plant. Also noticeable in this year was the set-up of high-capacity shirt-finishing-machines, automatic washers and automatic boilers at the branches of Tokyo, Osaka, Nagoya and Sendai, in order to conform with new modes of society and to improve productivity.

- 1) The business term of the Company covers every half year from February 1st to July 31st and from August 1st to January 31st. So the shown terms are 61-Feb. 1, 1964 to July 31, 1964; 62-Aug. 1, 1964 to Jan. 31, 1965; 63-Feb. 1, 1965 to July 31, 1965; 64-Aug. 1, 1965 to Jan. 31, 1966; 65-Feb. 1, 1966 to July 31, 1966; 66-Aug. 1, 1966 to Jan. 31, 1967.
- 2) In the seasonal fluctuations of cleaning business, in case of Tokyo for example, the busiest period falls on from about 20th of May to middle of June, while the off-seasons on February and August. A period from July to September (summer) and December are less profitable relative to the treated volume.

By 1965 Shibuya plant was completed and the reconstruction of Fukuoka plant was commenced. Since by this time the several years' efforts of rationalization came to bear fruits, full endeavors were directed to efficient utilization of existing facilities, while a land for plant was purchased in Yokohama to provide for future.

In the next year 1966 the construction of Nagoya plant was started, and expansion of Kyoto plant and enrichment of machinery in other plants were carried out. In particular in this period instruments for location-cleaning were accommodated in branches to cope with new markets.

As above, the Company has actively promoted expansion for production up to 1966. For business terms of 1967 it has programs as shown in Exhibit 4 below.

Exhibit 4. Programs of Facility Expansion

Facility	Contents	Expense (thousand yen)	Period	
			Start	Finish
Land	Purchase of land for plant 2 cases	32,500	Feb.'67	April'67
Building	Shonan new plant	12,300	April'67	July'67
	Tameike new shop 2 cases	60,000	Oct.'67	May'68
Furnishing of building	New open and repair of shop 22 cases	41,650	Feb.'67	July'68
	" 7 cases	11,210	Aug.'67	Jan.'68
Boarding-house repair	Plant boarding for female, etc. 5 cases	1,000	Feb.'67	Mar.'67
	" for male, etc. 3 cases	1,000	Oct.'67	Jan.'68
Machinery & Equipment	Set-up and replacement of washing machinery	20,000	Feb.'67	July'67
	"	21,000	Aug.'67	Jan.'68
Vehicle	Increase and replacement of vehicle for transport 66 cars	18,800	Feb.'67	July'67
	" 45 cars	30,000	Aug.'67	Jan.'68
	Subtotal (Feb.'67-July'67)	126,250		
	" (Aug.'67-Jun.'68)	123,210		
	Total	249,460		

Source: The Company

(2) Sales

a) Sales Conditions

The cleaning business begins with drawing of articles for washing from customers. Routes of drawing are broadly divided into shop dealings, customer-service-man dealings, big-lot dealings, department-store dealings, and agent dealings. The shop dealings and department-store dealings depend mainly on carry-in of articles by customers themselves; the customer-service-man dealings visit to customer homes; the big-lot dealings on direct con-

tract with hotels, companies or government offices; and the agent dealings make specified contracts between the Company and agents, whose portion, however, is very small. Articles gathered are sorted by routes, plant operations and customers, and then sent to plants. Finished goods are delivered on the same routes with drawing.

Exhibit 5. Shares of Drawing Routes of Hakuyosha (%)

Dealings	Term 61	Term 62	Term 63	Term 64	Term 65	Term 66
Shop and customer-service-man	89.8	87.2	91.2	90.6	90.8	90.3
Big-lot	5.4	7.0	3.4	4.5	4.5	5.3
Department-store	4.0	5.2	4.8	3.9	3.8	3.6
Agent	0.8	0.6	0.6	1.0	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: The Company

Exhibit 6. Cleaning Charges of Hakuyosha, by articles (in yen)

Article	Term 61	Term 62	Term 63	Term 64	Term 65	Term 66
Laundry						
Shirt	50	60	60	60	60	60
Blouse	60	60	60	60	60	60
Cotton skirt	Above 150	Above 150	Above 150	Above 150	Above 150	Above 150
Sheet	60	60	60	60	60	60
Mattresscover	100	100	100	100	100	100
Dry (light) cleaning						
Overcoat	450	450	450	450	450	450
Sack suit (two pieces)	400	400	400	400	400	400
Lady's suit	350	350	350	350	350	350
Trousers	170	170	170	170	170	170
Sweater	150	150	150	150	150	150
Blanket	300	300	300	300	300	300

Source: The Company

b) Lines of Business

Business items of the Company can be outlined as follows. Cleaning in a wide sense is divided into dry cleaning and laundry.

(a) Dry cleaning. Using volatile solvents, woolen fabrics, silk fabrics, fur and leather goods and some kinds of chemical fiber products are washed, their stains are removed, and finishing is put. This is a method of washing with no damages on ground, form and color. In 1965 the Company developed high-quality "royal cleaning," and so it has now two kinds of dry cleaning, royal and light.

(b) Laundry. With soap and hot or mild water, goods of cotton, hemp

yarn and some sorts of chemical fiber are washed.

(c) Special processing. Services of processing include dyeing as well as insect proofing, water proofing, discoloring proof, mold proof, hardening, softening and folding, etc.

(d) Sale of goods. Sales business is carried on laundry soap and neutral cleanser for home-washing material as well as chemicals for insect and damp proof and dust-absorbing cloth for home-use.

(e) Others. Linen supply and protective storage of washing-finished articles are carried, but their amounts are small.

As of 1966, the Company's business items were as follows.

dry cleaning (royal cleaning, light cleaning)

laundry

carpet and rug cleaning

fur and leather cleaning

hat and kimono cleaning

dyeing

special processing (water proof, moth proofing, sizing, etc.)

on the location cleaning for furnitures, etc.

jewelry cleaning

re-weaving

storage of clothes

merchandise on sales (selling of household laundry soap, household

neutral cleanser, insecticide, etc.)

Sales of major lines are shown in Exhibit 7.

Exhibit 7. Sales of Hakuyosha, by business lines (in thousand yen)

Line	Term 61		Term 62		Term 63	
	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage
Dry cleaning	894,508	70.6	701,329	65.7	976,097	68.9
Laundry	266,203	21.0	268,982	25.2	289,883	20.5
Special processing	81,147	6.4	82,704	7.7	119,180	8.4
Sale of goods	24,952	2.0	14,547	1.4	30,500	2.2
Total	1,266,837	100.0	1,067,562	100.0	1,415,660	100.0
Line	Term 64		Term 65		Term 66	
	Amount	Per-centage	Amount	Per-centage	Amount	Per-centage
Dry cleaning	782,965	64.7	1,040,784	68.6	830,066	63.2
Laundry	288,924	23.9	290,369	19.2	296,870	22.6
Special processing	110,834	9.2	135,277	8.9	118,581	9.0
Sale of goods	26,460	2.2	49,824	3.3	67,667	5.2
Total	1,209,183	100.0	1,516,254	100.0	1,313,184	100.00

Source: The Company

c) Expansion of shops

As has been observed in (a) the Company's sales routes majorly depended on shop dealings and service-man dealings for individuals, and so extensive network of business was required to meet customers' demands. Hence many efforts have been concentrated for new foundation and expansion of shops and service shops.

In the spring of 1963 new shops were made to Makomanai (Sapporo) and Chiba station building. In the summer Kobe Branch was set up for business expansion in Hanshin area, and then, especially in this year active business condition was seen with shops in "danchi" (collective housing place) and station buildings.

In 1964 about twenty shops to carry-in were set up in the Shinjuku (Tokyo) or other station buildings and department-stores.

In 1965, in order to cope with increasing mass demands new shops were opened in twenty-three places including Ryogoku (Tokyo), Shakuji (Tokyo), Miyamachi (Sendai) and Sakaemachi (Nagoya). Particularly, it was noteworthy that the Company took great interest in first the development of royal cleaning aiming at the best quality, and second the business of clothes storage and furniture's cleaning in line with the general rationalization of living.

By the spring of 1966 the cleaning industry fell into a state of confusion due to active moves of low-price firms that had emerged since about 1963. Such a state required a reform of management to the business. The Company was not free from this, too, profits being drastically reduced affecting its dividend policy. The Company had to promote managerial rationalization to overcome such a situation. Programs were planned out, e.g., as to shops, to set up shops of unit-type with workroom, and to expand agent shops and chain-contract shops. Even under this situation the expansion of network was steadily carried out in eighteen places including Nagoya, Tokyo, Kyoto and so on within the year.

Exhibit 8. Numbers of Establishments of Hakuyosha

Establishment	Term 61	Term 62	Term 63	Term 64	Term 65	Term 66
Branch	15	16	16	16	17	17
Plant	17	18	18	18	18	18
Shop	134	137	160	160	181	187
(of which service shops, etc.)	34	58	81	90	110	116

Source: The Company

 Exhibit 9. Set-up of Shops and Service Shops in 1966

February—Nagazumi shop (Fukuoka), Hiyoshi Drawing and Delivery Shop (Yokohama)

March—Chigusa Service Shop (Nagoya)

April—Hankyu Ibaragi Service Shop (City Ibaragi), Gifu Shop (City Gifu), Horonishi Shop (Sapporo)

May—Marukane Store Service Shop (Sendai), Mukobimachi Shop (Kyoto)

June—Okayama Service Shop (Tokyo)

August—Aobadai Service Shop (Yokohama)

September—Denden-Building Service Shop (Shizuoka), Iigura Service Shop (Tokyo), Funabashi Service Shop (Funabashi)

October—Palace-Side-Building Service Shop (Tokyo), Mukojima Service Shop (Kyoto)

November—Arae Service Shop (City Fukuoka), Iwamizawa Shop (Iwamizawa)

December—Gumyoji Service Shop (Yokohama)

 Exhibit 10. Comparison of Dry Cleaning Process between Hakuyosha's (Light) System and Coin System

Hakuyosha	checking→marking→sorting→fiber test→pocket cleaning→dust removing→provisional repair→button removing→big-size cleaning machine→mold proofing→liquid removing→drying→inspection→stain removing→spotting→sorting→machine finishing→hand finishing→final inspection→sorting→repair→button fixing→package→delivery (confidence, security, technique, sanitation, economy, convenience)
Coin System	marking→simple dust removing→small-size machine cleaning→oil removing→simple finishing→package (speed, cheapness, clean)

Source: The Company

III. Financial Position

Exhibit 11. Balance Sheet (July 1964 ~ Jan. 1967)

item	year						(yen)
	Term 61st (as of July 31, 1964)	Term 62nd (as of Jan. 31, 1965)	Term 63rd (as of July 31, 1965)	Term 64th (as of Jan. 31, 1966)	Term 65th (as of July 31, 1966)	Term 66th (as of Jan. 31, 1967)	
Assets							
Current Assets							
Cash and deposits	617,096,186	728,530,618	836,329,246	750,467,754	851,509,129	988,785,689	
Notes receivable	324,467,388	481,221,853	470,937,648	485,691,433	466,323,926	672,197,785	
Uncollectible sales	514,823	3,010,861	672,400	4,109,847	3,649,091	2,130,603	
Raw materials	188,164,909	130,568,292	225,621,080	155,216,371	280,915,631	196,319,312	
General supplies	6,041,353	5,376,730	5,572,826	5,801,518	5,514,726	6,062,918	
Advance payments of expenses	18,228,464	17,079,321	22,953,985	25,411,822	27,596,046	33,105,098	
Short-term loans	9,552,966	9,116,843	14,694,556	15,833,389	16,273,856	13,560,324	
Money in deposit	69,495,927	81,305,917	101,142,700	63,466,685	56,457,383	72,333,543	
	630,356	850,801	734,051	936,689	778,470	1,076,106	
Fixed Assets							
Tangible Fixed Assets							
Buildings	999,885,456	1,093,719,597	1,099,710,333	1,086,644,773	1,199,906,606	1,226,276,027	
Furnitures	629,719,683	700,876,052	694,671,632	684,772,930	695,398,510	698,001,183	
Constructions	229,869,766	257,380,215	297,983,523	288,433,320	306,674,742	316,711,459	
Machinery and equipment	12,063,946	16,016,834	16,152,910	19,945,679	20,262,665	22,366,583	
Vehicles	9,143,519	8,828,002	10,462,069	10,960,111	11,220,807	11,155,136	
Tools and instruments	139,341,610	183,007,984	200,510,682	179,211,803	167,249,422	164,983,591	
Lands	40,699,248	35,283,971	37,386,902	38,146,171	38,871,799	36,046,785	
Construction in process	20,465,633	21,418,603	21,904,012	20,269,246	19,211,763	19,065,233	
Intangible Fixed Assets							
Goodwill	58,905,379	100,997,943	110,271,543	125,328,342	125,397,312	126,642,396	
Right of telephone	119,230,582	77,942,500	—	2,478,258	6,510,000	1,030,000	
Leasehold	11,553,350	11,553,433	13,873,347	14,648,134	20,440,494	22,383,206	
Using right of electricity, gas and water instruments	5,843,042	5,855,916	6,007,116	6,225,316	5,513,667	2,385,667	
Investments							
Stock investment	4,834,753	4,836,192	7,049,136	7,649,953	6,686,916	7,092,148	
Stock of subsidiary companies	905,555	861,325	817,095	772,865	786,969	741,073	
Long-term guaranty money	358,582,423	381,290,112	391,165,354	387,223,709	484,067,602	505,891,638	
Long-term loans	149,852,225	171,745,896	172,665,276	171,304,276	189,394,576	189,257,376	
Deposit for retirement money allowance	25,585,000	21,185,000	21,185,000	20,000,000	20,000,000	20,000,000	
	471,000	488,400	491,400	561,400	678,900	745,700	
	94,257,340	102,821,036	122,217,286	131,579,756	149,533,226	171,521,562	
	77,316,858	73,949,780	74,606,392	63,778,277	124,460,900	124,367,000	
	11,100,000	11,100,000	—	—	—	—	
Total	1,616,951,642	1,822,250,215	1,942,039,579	1,843,112,527	2,057,415,735	2,223,061,716	
Total depreciation of tangible fixed assets	330,936,057	369,884,419	415,716,508	463,012,007	505,004,598	551,604,510	

Item	Year	Term 61st (as of July 31, 1964)	Term 62nd (as of Jan. 31, 1965)	Term 63rd (as of July 31, 1965)	Term 64th (as of Jan. 31, 1966)	Term 65th (as of July 31, 1966)	Term 66th (as of Jan. 31, 1967)
(yen)							
Liabilities and Capital							
Current Liabilities							
Note payable		508,772,154	428,283,839	553,062,166	454,174,089	606,170,360	504,472,123
Accounts payable		23,743,901	18,801,734	15,398,700	3,813,225	8,203,680	4,713,975
Short-term debts		86,967,813	62,288,576	101,449,233	59,127,860	91,337,185	65,441,211
Unpaid money		18,000,000	10,000,000	95,145,669	132,947,295	126,448,974	131,250,713
Accrued expenses		14,924,840	4,519,019	7,624,718	3,753,454	9,846,097	5,300,198
Money in deposit		69,257,758	53,828,399	82,747,592	57,625,837	94,589,062	51,570,223
Tax allowance		131,485,247	141,222,177	160,696,254	158,906,418	176,745,362	176,532,069
Advances received		90,762,030	40,000,000	90,000,000	38,000,000	99,000,000	25,000,000
		73,630,565	97,623,934				44,663,734
Fixed Liabilities		181,320,322	280,689,722	207,479,495	205,254,103	204,603,013	167,289,650
Long-term debts		147,050,000	236,889,446	151,922,105	146,798,042	150,173,128	115,547,329
Guaranty		34,270,322	43,800,276	55,557,390	58,456,061	54,429,885	51,742,321
Allowances		129,639,526	102,008,583	142,322,941	110,622,129	124,594,678	139,412,422
Retirement money allowance		90,139,526	91,008,583	106,322,941	104,622,129	118,594,678	115,273,442
Reserve for price fluctuation		4,500,000	5,000,000	6,000,000	6,000,000	6,000,000	8,000,000
Allowance for bad debts		6,000,000	6,000,000	30,000,000			
Allowance for repairs		29,000,000					
Allowance for real estates comprised							
Capital							
Paid-in capital		500,000,000	700,000,000	700,000,000	700,000,000	735,000,000	1,000,000,000
Legal Reserves		500,000,000	700,000,000	700,000,000	700,000,000	735,000,000	1,000,000,000
Capital reserve		92,738,584	78,281,164	83,281,164	88,781,164	95,781,164	89,576,924
Revaluation reserve		36,580,025	25,281,164	25,281,164	25,281,164	25,281,164	13,076,924
Earned reserve		7,158,559	53,000,000	58,000,000	63,500,000	70,500,000	76,500,000
Surpluses		204,511,056	232,986,907	255,893,813	284,281,042	291,266,520	322,310,597
Reserve for retirement		65,500,000	75,500,000	85,500,000	95,500,000	10,000,000	10,000,000
General reserve		53,000,000	60,000,000	65,000,000	72,000,000	110,500,000	120,500,000
Dividend equalization reserve		12,545,979	24,011,056	24,733,467	26,893,813	44,281,042	51,000,000
Brought forward from the last term		73,465,077	73,475,851	80,660,346	89,887,229	87,485,478	95,669,077
Net profit for the current term							
Total		1,616,981,642	1,822,250,215	1,942,039,579	1,843,112,527	2,057,415,735	2,223,061,716

Source : The Company

Exhibit 12. Profit and Loss Statement (Feb. 1964 ~ Jan. 1967)

item	(yen)					
	year Term 61st from Feb. 1, 64 to July 31, 64	Term 62nd from Aug. 1, 64 to Jan. 31, 65	Term 63rd from Feb. 1, 65 to July 31, 65	Term 64th from Aug. 1, 65 to Jan. 31, 66	Term 65th from Feb. 1, 66 to July 31, 66	Term 66th from Aug. 1, 66 to Jan. 31, 67
Ordinary Profit and Loss						
Operating Profit and Loss						
Operating revenue	1,266,836,822	1,067,562,082	1,415,660,305	1,209,183,025	1,516,254,179	1,313,183,569
Sales	1,266,836,822	1,067,562,082	1,415,660,305	1,209,183,025	1,516,254,179	1,313,183,569
Operating expense	1,096,115,007	996,813,148	1,249,004,379	1,118,199,032	1,352,372,051	1,233,546,098
Product cost and business expenses	1,011,848,201	910,163,002	1,131,867,222	1,034,790,079	1,232,414,583	1,139,447,352
General administration expenses	84,266,806	86,650,146	117,137,157	83,408,953	119,957,468	94,098,746
Operating profit	170,721,815	70,748,934	166,655,926	90,983,993	163,882,128	79,637,471
Non Operating Profit and Loss						
Non-operating revenue	26,476,124	33,505,005	44,704,067	48,195,475	47,479,820	57,085,525
Interests and dividends received	12,288,524	16,356,357	20,511,287	17,199,308	21,579,079	25,423,535
Others	14,187,600	17,148,648	24,192,780	30,996,167	25,900,741	31,661,990
Non-operating expense	20,432,862	29,870,199	34,245,927	33,313,879	35,481,951	35,975,799
Interests paid	12,208,523	19,651,242	18,232,782	23,864,321	23,820,740	21,608,864
Others	8,224,339	10,218,957	16,013,145	9,449,558	11,661,211	14,366,935
Non-operating profit	6,043,262	3,634,806	10,458,140	14,881,596	11,997,869	21,109,726
Ordinary Profit	176,765,077	74,383,740	177,114,066	105,865,589	175,879,997	100,747,197
Special Profit and Loss						
Special profit	2,200,000	50,478,560	23,546,280	30,000,000	12,029,765	36,060,860
Special loss	33,500,000	11,386,449	30,000,000	7,978,360	1,424,284	16,138,980
Net special profit	31,300,000	39,092,111	6,453,720	22,021,640	10,605,481	19,921,880
Net Profit before Tax	145,465,077	113,475,851	170,660,346	127,887,229	186,485,478	120,669,077
Allowance for taxes	72,000,000	40,000,000	90,000,000	38,000,000	99,000,000	25,000,000
Net Profit	73,465,077	73,475,851	80,660,346	89,887,229	87,485,478	95,669,077
Brought forward from the last term	12,545,979	24,011,056	24,733,467	26,893,813	44,281,042	45,141,520
Undistributed Profit at Current-Term End	86,011,056	97,486,907	105,393,813	116,781,042	131,766,520	140,810,597

Source : The Company

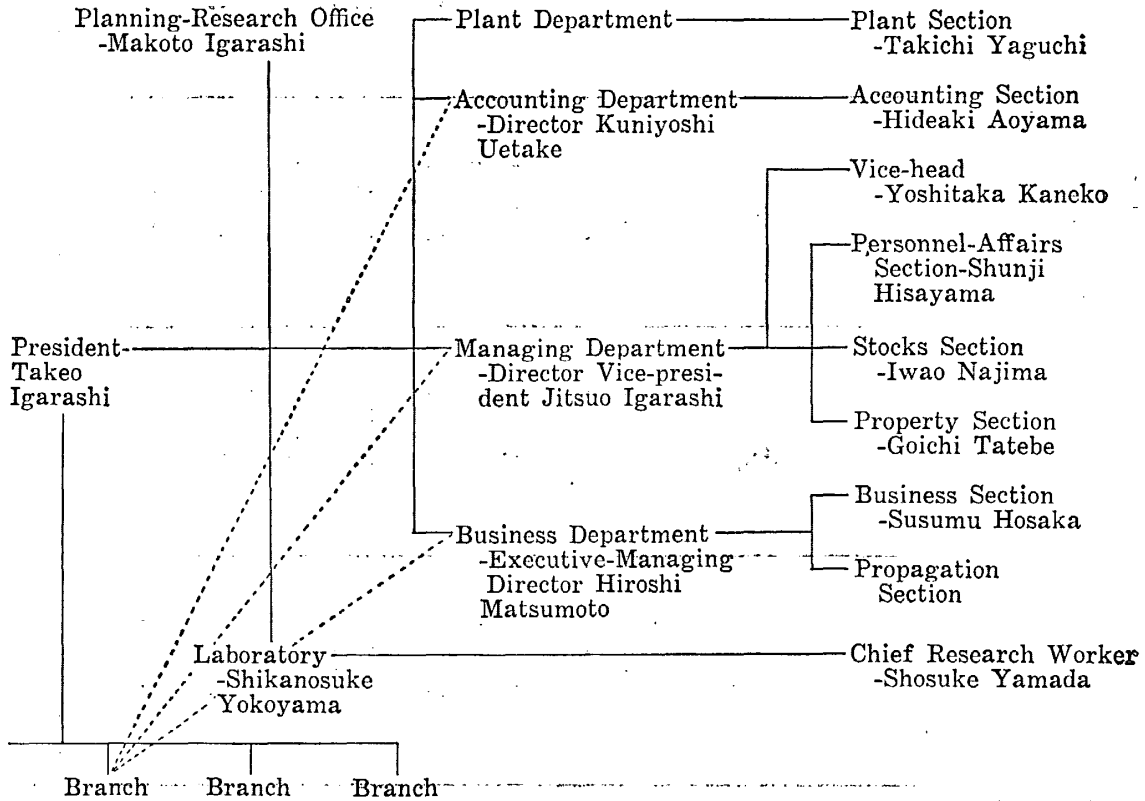
Exhibit 13. Operating Revenue by Branches, 1st-half term, 1963~2nd-half term, 1965

Branch	1963		1964		1965	
	1st-half (59th)	2nd-half (60th)	1st-half (61st)	2nd-half (62nd)	1st-half (63rd)	2nd-half (64th)
Tobu Division						
Tokyo Branch	170,388	142,665	186,183	159,345	200,181	174,897
Shibuya Branch	154,634	123,386	173,582	136,891	185,668	158,158
Tobu Branch	60,375	56,096	73,082	70,374	93,187	80,804
Seibu Branch	74,503	63,044	87,782	74,420	93,492	80,971
Shonan Branch	48,523	41,495	57,912	51,054	69,258	62,652
Yokohama Branch	19,733	17,686	30,658	26,545	40,441	35,558
Gumma Branch	—	—	—	900	4,492	4,560
Tameike Branch	34,946	28,448	41,013	33,492	43,656	37,120
Subtotal	563,102	472,820	650,212	553,021	730,375	634,720
1st Division						
Sapporo Branch	66,349	66,984	77,392	79,039	87,921	87,649
Sendai Branch	51,690	49,018	59,831	61,761	68,466	69,114
Subtotal	118,039	116,002	137,223	140,800	156,387	156,763
Seibu Division						
Osaka Branch	194,080	156,202	200,850	157,159	214,381	170,536
Nagoya Branch	124,438	98,737	144,313	109,799	164,640	119,868
Kyoto Branch	55,270	44,037	60,467	46,178	63,405	52,143
Kobe Branch	—	14,247	23,799	20,322	29,383	27,085
Subtotal	373,788	313,223	429,429	333,458	471,809	369,632
2nd Division						
Fukuoka Branch	34,084	25,167	33,872	27,033	36,791	31,948
Shizuoka Branch	12,621	10,184	16,101	13,250	20,298	16,120
Subtotal	46,705	35,351	49,973	40,283	57,089	48,068
Total	1,101,634	937,396	1,266,837	1,067,562	1,415,660	1,209,183

Source : The Company

IV. Organization

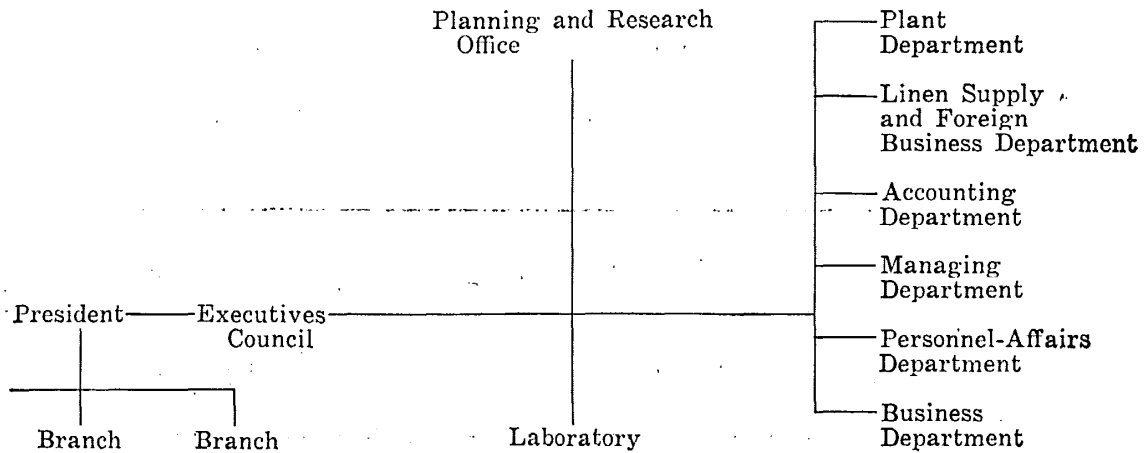
Exhibit 14. Organization Chart of Main Office (up to 1965)



(Names denote heads of respective Departments or Sections unless otherwise noted.)

Source: The Company

Exhibit 15. Organization Chart of Main Office (as of 1966)



(The chart is simplified because changes from Exhibit 14 are minor.)

Source: The Company

Exhibit 16. Personal Histories of Executives

Takeo Igarashi. Director, President. Born Sept. 5, 1903. April 1927, entered the Company. April 1933, Head of Tamagawa Plant. Dec. 1934, Director. Dec. 1941, Executive Managing Director. Feb. 1947, President. May 1961, Auditor of Origin Electric Company (additional).

Jitsuo Igarashi. Director, Vice-president, Head of Managing Department. Born July 25, 1905. April 1924, entered the Company. July 1937, Head of Osaka Plant. Oct. 1939, Head of Osaka Branch (additional). Dec. 1941, Director. Feb. 1947, Managing Director. Feb. 1947, Head of Seibu Branch. June 1953, Head of Managing Department. Mar. 1956, Vice-president.

Hiroshi Matsumoto. Executive Managing Director, Head of Business Department. Born Feb. 1, 1907. July 1930, entered the Company. Dec. 1941, Director. Feb. 1947, Managing Director. Feb. 1947, Head of General-Affairs Department and Head of Tobu Branch. Jan. 1951, Head of General-Affairs Department and Tokyo Branch Office. June 1953, Head of Business Department. Mar. 1956, Executive Managing Director.

Keiichi Igarashi. Managing Director, Head of Tokyo Branch. Born July 15, 1928. April 1952, entered the Company. July 1957, Head of Tameike Branch. April 1960, Head of Nagoya Plant. Feb. 1961, Head of Nagoya Branch. Mar. 1961, Director. Aug. 1964, Head of Tokyo Branch. Mar. 1965, Managing Director.

Tajiuro Hirose. Director. Born Oct. 23, 1901. June 1928, Director of the Hirose Shokai Co. April 1936, Representative of the Hirose Shokai Co. Dec. 1936, Auditor of the Company. Mar. 1954, Director. Jan. 1961, Director, President of the Hirose Shokai Co.

Suzusaburo Ito. Director. Born Nov. 16, 1905. Mar. 1930, Auditor of the Matsuzakaya Co. (department store). Mar. 1933, graduated from London University. Dec. 1947, Auditor of the Company. April 1950, Director of the Matsuzakaya Co. Mar. 1954, Director. Oct. 1957, Vice-president of the Matsuzakaya Co.

Kazuichiro Tanaka. Director, Head of Osaka Branch. Born Jan. 13, 1907. Mar. 1929, entered the Company. April 1941, Head of Foreign Section of General-Affairs Department. Jan. 1946, Head of Fukuoka Branch. Jan. 1949, Head of Osaka Branch. Mar. 1954, Auditor. Mar. 1955, Director.

Kuniyoshi Uetake. Director, Head of Accounting Department. Born Feb. 10, 1910. April 1931, entered the Company. Jan. 1954, Vice-head of Osaka Branch. May 1955, Head of Sapporo Branch. Mar. 1951, Director. Mar. 1963, Head of Accounting Department.

Koki Nakamura. Director, Head of Planning-Research Office. Born Jan. 29, 1918. April 1940, entered the Company. May 1955, Head of Sendai Branch. April 1960, Head of Tokyo Branch. Mar. 1963, Director. Aug. 1964, Head of Planning-Research Office.

Hisatoshi Kaneda. Director, Head of Shibuya Branch. Born Jan. 5, 1915. Mar. 1937, entered the Company. May 1950, Head of Tameike Branch. July 1957, Head of Shibuya Branch. Mar. 1963, Director.

Yuji Igarashi. Director, Head of Nagoya Branch. Born Nov. 30, 1923. Dec. 1946, entered the Company. April 1951, Head of Atsugi Plant. Sept. 1953, Head of Osaka Plant. April 1960, Head of Plant Department (additional). Aug. 1964, Head

of Nagoya Branch. Mar. 1966, Director.

Haruo Sugita. Director, Head of Shonan Branch. Born Mar. 8, 1913. Aug. 1937, entered the Company. Feb. 1945, Head of Nagoya Plant. Nov. 1946, Head of Numazu Branch. Feb. 1958, Head of Shonan Branch. Mar. 1967, Director.

Makoto Igarashi. Director, Head of Linen Supply Department, Head of Foreign Business Department. Born Mar. 14, 1926. April 1950, entered the Company. Aug. 1950-Aug. 1952, studying in America. Feb. 1953, Vice-head of Tameike Branch. Aug. 1964, Head of Linen Supply Department and Foreign Business Department. Mar. 1967, Director.

Source: The Company

In the organization as of 1965 there had been set up Department-Heads Council (*buchōkai*), to be irregularly convened, as the decision-making organ. The Council discussed all important affairs of the Company, the subjects being not pre-determined but proposed at each occasion. It comprised four members: President (T.Igarashi), Vice-president (J.Igarashi), Executive Managing Director (H.Matsumoto) and Head of Accounting Department (K.Uetake). (see Exhibit 16.)

By the new organization of 1966, the Department-Heads Council was institutionalized as the Council of Executives (*jōmukai*). For its members two executives (both were branch-head) were added anew to the members of the former Department-Heads Council. This Council also had no regular meeting and no pre-determined subjects. But it has been opened more frequently than before.

So it must be said that no fundamental reform was made, leaving the shortcomings in the previous system untouched. Major ones of such faults were:

(a) Since the members of Executives Council were also responsible for daily business operations, in dealing policy-making or other company-wide problems, they were apt to be affected by the interests of the departments they were respectively in charge, lacking in synthetic judgement.

(b) As for reports from branches they were directly sent in from the branch-heads to the concerned Department-heads (of the main office) — for instance, matters concerning accounting of branches were directly reported to the head of Accounting Department in informal forms (as seen in the dotted lines of Exhibit 14). This resulted in stronger authority of Department-heads of the main office over branches. That is to say, although in the organization chart branches were subject to the direct control of President, with increasing number of branches the overall control of President became impossible, while the authority of Department-heads — with additional posts of staff such as vice-president or executive managing director — was intensified. Hence on the side of branch-heads the consciousness of president's direct control became feeble; the president's authority over branches turned only nominal. And also other staff departments came about to work pressure on

branches.

(c) There had been some cases that branch-heads neglected transmission of reports unfavorable to themselves, which sometimes resulted in delays of decision-making by the main office. For example, since formerly performance had been appraised with regard to each branch, discovery of faults in the branch's accounting (such as window-dressed report) was often delayed.

(d) For these reasons it became difficult for the president to make exact and synthetic appreciation on branches. Hence on personnel affairs, e.g., promotion etc., he was obliged to rely on paternalism and seniority system.

(e) As to labor administration also, the president had become out of touch with the actual state of work fields in accompany with increasing inability of overall control, and consequently internal communication had turned unfavorable, bringing about antagonistic attitude on the side of labor union against the company.

(f) In the organization it was intended, by appreciating performance with respect to each branch, to make competitive sense among branches and thus to boost performances. However, this generated a reverse effect, that is, an implicit inclination to expect stagnant performances of other branches mutually. This made cooperative work among branches difficult, such as dispatch of workers to busy branches from others.

President Igarashi, being aware of these organizational defects, considered reorganization in order to overcome excessive competition and to expect further developments.

V. Future Plans

Koki Nakamura, Head of Planning-Research Office, stated about the current position of cleaning business and the Company's policy on it as follows.

"Since about 1963-64 main electric machine makers, being faced with stagnant demand for home washing machine (see Exhibit 17), began to produce and market industrial washing machine which formerly had been on order-production by specialty makers, who also followed the line of mass production of big makers. This caused declines in washing-machine prices and consequently there arose a mushroom of smaller-scale cleaning firms and keen price-cut competition in a part of the circles (see Exhibit 18).

As the result, moves of low-price firms became active bringing about a sharp decrease in the profit of our Company, and hence making a change in business policy urgent. We were necessarily confronted with a selection between a lowering of charges or a canvass to sell high-class image oriented to high-income classes.

The President took a policy of no-lowering. The reasons were:

(a) Our Company places emphasis on satisfying high-income custom-

ers.

- (b) Socially seen, personal incomes are on rise, and hence the strata of purchasers of high-class clothes are expanding.
- (c) Experiences in America and Europe suggest that customers want better-quality cleaning rather than cheapness."

Exhibit 17. Shipment of Home Electric Washing Machines

Year	Number of Maker	Number (1,000 sets) of Production	Percentage to Previous Year
1960	28	1,453	100
1961	21	1,984	136.5
1962	23	2,353	118.6
1963	23	2,435	103.5
1964	20	2,466	97.1

Source: Research and Statistics Division, Ministry of International Trade and Industry, Kōgyō Tōkei-hyō (Industrial Statistics).

Exhibit 18. Cleaning Charges in Major Cities (in yen)

City	Dry Cleaning (sack coat)			Laundry (cotton shirt)		
	1963	1964	1965	1963	1964	1965
Sapporo	399	387	387	40.00	40.00	39.70
Aomori	420	420	538	40.00	40.00	50.00
Sendai	400	441	465	40.00	47.50	50.00
Tokyo	485	490	483	47.20	48.20	50.30
Yokohama	476	479	473	47.40	47.30	48.00
Nagoya	432	452	451	44.20	47.30	48.30
Osaka	522	517	515	47.90	47.50	50.20
Kobe	475	479	524	46.30	46.30	51.70
Yamaguchi	368	363	374	33.80	34.80	35.00
Fukuoka	400	400	377	35.00	35.00	39.00
Saga	400	392	383	40.00	38.50	36.70

- Note. 1) Figures are averages among firms, not charges by low-price firms. But their effects are observable in cities of low charge or big drop.
- 2) Consumer price indices of all cities are as follows (base 1960); 1962-112.5, 1963-121.0, 1964-125.6, 1965-135.2.

Source: Statistics Bureau, Prime Minister's Office, Kouri Bukka Tōkei Chōsa Nempō (Annual Report of Retail Prices).

In order to meet the situation described by Nakamura as above, the Company was considering intensification of competitive power and improvement of profitability by way of a thorough reorganization of system and rationalization of process control at plant.

As to the reorganization, its basic policy was set forth at a meeting of the Executives Council in the summer of 1966, and thereafter had been examined

by Nakamura and other members of Planning-Research Office. He held a view that the organizational defects as described above could be remedied by adopting the divisionalization. The basic policies were as follows:

"The reorganization is intended to set up a system that may render operation fields possible to cope with market changes. In line with this policy the following measures are conceivable.

(a) Divisionalization shall be introduced anew. Branches shall be placed under control of these divisions (Seibu, Tobu, Provincial, Linen Supply, etc.). By this, the competence to control over branches will be delegated to the lower and the room of discretion for each division-manager will be enlarged. Each division is made a profit center, whose responsibility is intensified. And further effects may be expected as follows. (1) The authority of president, which has been only nominal due to the difficulty of overall control of branches, will be made substantial. (2) Since performances are evaluated on the unit of division, cooperation system among branches will be secured. (3) Division-managers can directly control branches and hence can discover mistakes or faults of accounting more immediately. (4) Division-managers can judge ability of branch-heads, and hence promotion system based on ability can be effected. (5) The competence of the staff departments of the main office will be weakened while that of line-heads will be strengthened. (6) Since branches are unified into several blocks, will of branch-heads, for example on personnel management, will be consolidated, and smooth communication with labor union may be expected. By adjusting organizational defects in this way, all sectors can perform unrestrained activities and thus the fighting power of operational posts will be gathered while sensitive grasp of market moves and effective absorption of profit may become possible.

(b) The sanction system shall be amended. Since formerly there have been too many persons to submit for approval resulting in prolonged decisions, the deciders shall be decreased and, distinguishing sanction by president and that by division-managers, the authority of the latter shall be expanded largely, and in the president's decision the persons to decide it shall be limited to the members of Executives Council while others being mere observers. This will help to set prompt decision, enabling operation posts to meet markets.

(c) The Executives Council and the committee of Division-Managers shall be perfectly separated. That is to say, company's board is separated from division-manager; there-by directors shall engage in overall management exclusively. On this problem current discussions on the executives-council (*jōmukai*) system may make a good reference (see the appendix).

(d) President's Room (to be set up as reformation of the former Planning-Research Office) shall perform the role of driving smooth cooperation of the Company's organizations, notably, as a secretariat of the Executives Council and committee of Division-Managers, to prepare subjects presented by the Department-Heads meeting. The head of the Room shall attend the

three meetings yet without vote.

(e) Rejuvenation of administrative classes shall be considered by transferring elders to side-line or correlated companies.

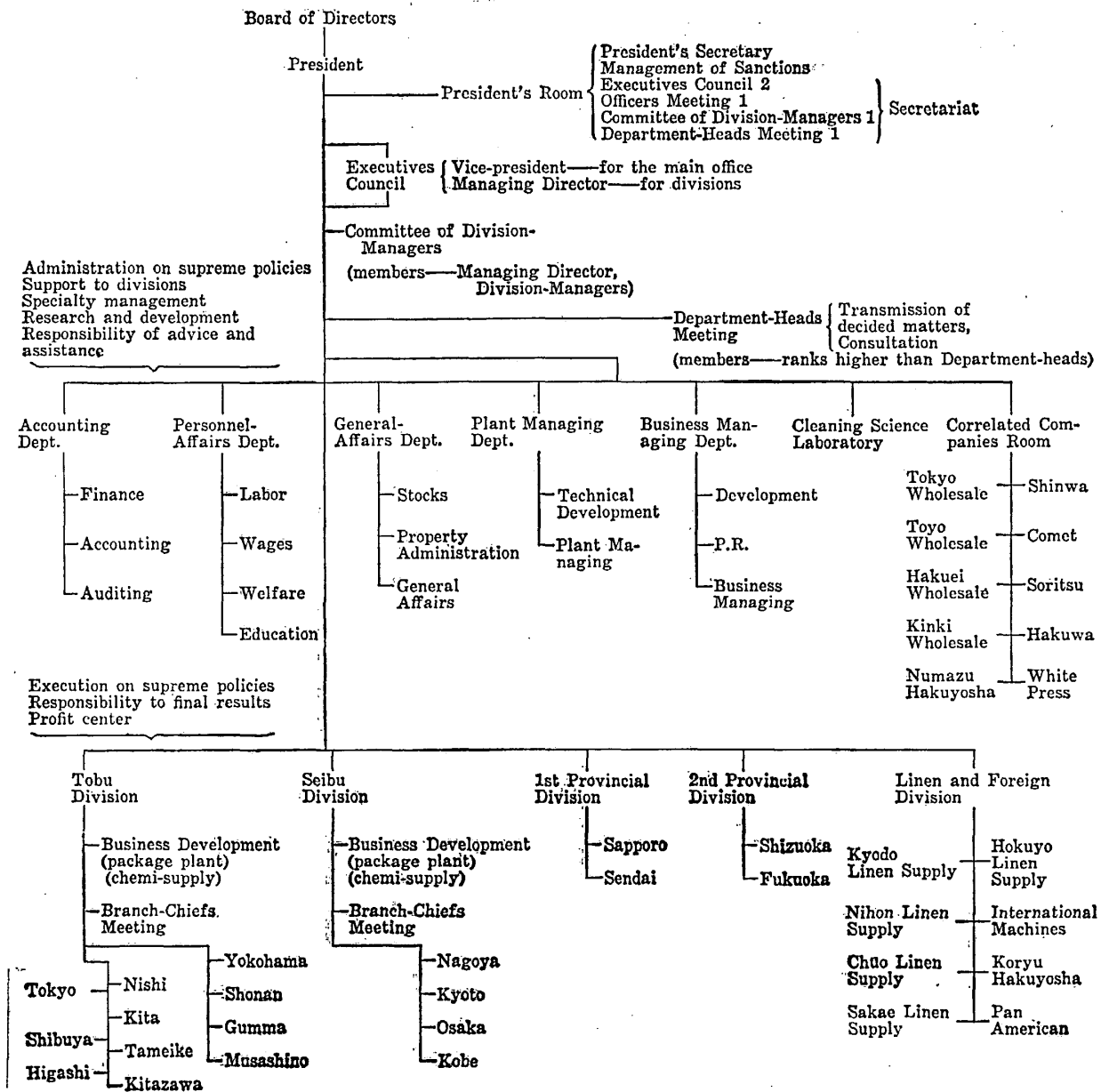
(f) The Executives Council, the committee of Division-Managers and the Department-Heads meeting shall be held regularly twice a month. In the Executives Council important overall problems of the Company are discussed, and in the committee of Division-Managers daily business operations be examined. The Department-Heads meeting is only an organ for consultation with no authority of decision."

On the base of these policies a reorganization plan, shown in Exhibit 19, was prepared and to be submitted to the Executives Council of July 20, 1967.

Yet K.Nakamura was conscious of the following shortcomings of the divisionalization.

- a) Personnel interchange among divisions does not smooth down.
- b) Each division is inclined to have independent staff of their own.
- c) Often coordination of works among divisions is not perfect leaving businesses which are not dealt by any division, notably as to new products etc. So such affairs must be charged by the President's Room.
- d) In conducting auditing by divisions, the ability of the main office may prove doubtful.

Exhibit 19: Reorganization Plan



Source: The Company

Appendix A: Tangible Fixed Assets, Jan. 31, 1967.

(thousand yen)

Main office Branch	Business	Total of Tangible Fixed Assets. (Book value)	Branch and others	Number of Employee	Machine	
					Main Machine	Number
Tokyo Branch	Dry cleaning	53,238	(Tokyo Branch)	21	Washing Machine	44
	Washing		Plant	121	Finishing Machine	79
	Dyeing	7,401	Shops 21	115	Others	42
	Others	2,564	Others 8	—		
	Total	63,203		257	book value 21,570	
Osaka Branch		27,949	(Osaka Branch)	18	Washing Machine	63
			Plant	103	Finishing Machine	118
		8,692	Shops 30	140	Others	65
		2,152	Others 6	—		
	Total	38,793		261	book value 12,168	
Shibuya Branch		103,865	(Shibuya Branch)	20	Washing Machine	34
			Plant 2	109	Finishing Machine	61
		7,533	Shops 17	120	Others	27
		3,129	Others 17	—		
	Total	114,527		249	book value 31,146	
Nagoya Branch		64,536	(Nagoya Branch)	16	Washing Machine	41
			Plant 2	85	Finishing Machine	92
		13,994	Shops 18	99	Others	47
		151	Others 12	—		
	Total	78,681		200	book value 20,498	
Higashi Branch		228	Higashi Branch	8		
		3,725	Shops 12	59		
		15	Others 7	—		
		Total	3,968		67	
Nishi Branch		3,773	Nishi Branch	7		
			Shops 14	47		
			Others 5	—		
		Total	3,773		54	
Sapporo Branch		21,835	(Sapporo Branch)	15	Washing Machine	34
			Plant	61	Finishing Machine	38
		5,212	Shops 12	68	Others	20
		16,794	Other 1	—		
	Total	43,841		144	book value 7,847	
Sendai Branch		12,023	(Sendai Branch)	10	Washing Machine	22
			Plant 2	45	Finishing Machine	34
		1,823	Shops 10	53	Others	19
		27	Others 3	—		
	Total	13,873		108	book value 6,567	
Shonan Branch		27,320	(Shonan Branch)	11	Washing Machine	25
			Plant 2	48	Finishing Machine	39
		3,475	Shops 10	50	Others	33
		3,982	Others 5	—		
	Total	34,777		108	book value 10,466	
Yokohama Branch		15,509	(Yokohama Branch)	6	Washing Machine	8
			Plant	22	Finishing Machine	10
		6,716	Shops 5	27	Others	6
		21	Others 4	—		
	Total	22,246		55	book value 2,788	
Kyoto Branch		33,072	(Kyoto Branch)	6	Washing Machine	24
			Plant 2	43	Finishing Machine	37
		5,359	Shops 15	48	Others	29
		2,184	Other 1	—		
	Total	40,615		97	book value 10,859	
Fukuoka Branch		7,060	(Fukuoka Branch)	10	Washing Machine	22
			Plant	28	Finishing Machine	35
		2,355	Shops 11	35	Others	25
		638	Other 1	—		
	Total	10,053		73	book value 2,926	
Shizuoka Branch		7,626	(Shizuoka Branch)	5	Washing Machine	12
			Plant	21	Finishing Machine	22
		732	Shops 3	16	Others	19
		247	Others 2	—		
	Total	8,605		42	book value 4,475	
Kobe Branch		29,200	(Kobe Branch)	4	Washing Machine	13
			Plant	21	Finishing Machine	16
		1,641	Shops 4	16	Others	3
			Others 3	—		
	Total	30,841		41	book value 3,310	
Tameike Branch		14,565	(Tameike Branch)	4	Washing Machine	9
			Plant	16	Finishing Machine	14
		668	Shops 4	9	Others	14
		93	Others 2	—		
	Total	15,326		29	book value 2,227	
Kitazawa Branch		4,203	Kitazawa Branch	11	Washing Machine	10
		1,302	Other 1	—	Finishing Machine	13
				—	Others	8
		Total	5,505		11	book value 3,255
Gumma Branch		5,012	(Gumma Branch)	2	Washing Machine	8
			Plant	8	Finishing Machine	6
			Shop 1	4	Others	3
			Others 2	—		
	Total	5,012		14	book value 3,441	
Main office	for Main office	66,162	Main Office	58	Washing Machine	11
		19,658	Others 7	—	Others	44
	Others	15,398	Rent to subsidiary company	—		
	Total	62,114		—		
	Total	163,332		58	book value 21,440	
Grand Total					Washing Machine	380
					Finishing Machine	614
					Others	404
	Total	696,971		1,869	book value 164,983	

Source: The Company.

Appendix B: Article on the Nippon Keizai Shinbun (a specialty newspaper on economy), July 17, 1967.

“Executives Council as a Branch of President”

—speedy, overall decision-making, step out from a place of interest coordination—

Recently in the business world there is arising a trend to reexamine the function of top management, that is, decision of supreme policies to elevate managerial ability. In the concrete it is being developed in the form of reinforcement of executives council, mainstay organ of top management of enterprise. From a viewpoint of coping with vigorously fluctuating business environments, this may be said a move well matching to the times. Yet besides it must not be overlooked that there was a self-reflection on what executives council that did not function at all originally should be.

As an organ for the supreme business management, most enterprises today have an organization consisted of relatively small number of persons from president down to managing director class. This is usually called “executives council” (jōmukai). As the reason for the need of such an organ it is accounted that, with the enlarged scale and increased complexity of business operations, their full achievement has become difficult unless a team is formed since there is limit on a president. The real reason is, however, such council confines its members to a relatively small number because “deliberation by all members of the board of directors is inefficient and waste of time.” It is true that a smaller number has good teamwork easily and furnishes a system suitable to team-leadership.

Actually the council is apt to become a place of interest coordination because the executives are the spokesmen of the interests of own department respectively. Therefore the real state is far from its original function to discuss supreme policies from an overall viewpoint. This is not foreign to the particular tendency of most Japanese enterprises. Also in America there is “management committee” that corresponds to our executives council, yet the Japanese system has developed in a particular from that it concentrates functions of top management almost entirely.

For instance, legally the board of directors has the function of supreme decision-making and the representative directors, such as president, make a subordinate organ to execute decided will, yet practically almost all members of the board of directors consist of internal executives, the board itself being adversely directed by president. Therefore sometimes the executives council, in which president's intention is reflected as it is, executes the function of the board as a proxy. This is the reason why the executives council is often called a magic coat for president's one-man control.

And in Japanese enterprises the separation is not yet complete between general management and departmental management such as division-manager, factory-head, laboratory-head and so on. So actually in many cases managers responsible for business are included into the members of executives council. This is also derived from, beside the said un-specialization of management class, a fact that the positions such as executive managing directors or managing directors are decided on account of the factor of seniority rather than that of ability.

In the industrial circles there are already some enterprises that, on the self-reflection of such weak-points of executives council, have put reforms on it as the supreme management organ. In the case of Nippon Electric Company, for example, an

amendment of supreme management was effected by means of a reform of the management reorganization in the latter half of 1965, a shift from the so-called "point organization" to "plane organization." In the point organization, with president as the apex, who has the authority of deciding supreme policies and the responsibility to execute them, other executives, being in charge of "vertically-divided" businesses, support president to make his decision-making easy. On the contrary in the plane organization executives are given equal authority with the president on management, although the final right of decision and responsibility lie with the president as in the case of point organization. In short, some part of functions and authority, which hitherto have been concentrated on the president—the point—are distributed to the members of executives council forming the plane of top management.