Family Business and IPOs:
The Case of Idemitsu Kosan

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1) Introduction

Globalization is proceeding all over the world. It increases the pressure towards international standardization in fields such as accounting standards, the financial system, corporate management systems and management education. Policymakers and managers in many countries are confronted with the problem of whether or not to adopt global standards instead of their own particular *modus operandi*. That means capitalism will homogenize the world over. And it also means the original styles of each country are lost. For example, Japanese management practices are native to Japanese firms. James Abegglen's "The Japanese Factory (1958)" and Ezra Vogel's "Japan as Number One: Lessons for America (1979)" introduced Japanese management to the rest of the world.

Many Western business scholars thought that Japanese-style management, for instance employment practices, the affiliate and subcontracting system (Keiretsu production system), and mutual shareholding, were sources of advantage in manufacturing industries. They began to pay attention to Japanese management in the 1980s. Lifetime employment, seniority based wages and enterprise unions are known as the so-called "Three Sacred Treasures" of Japanese management. The phrase "Three Sacred Treasures" originally referred to the mirror, sword and jewel that are the imperial regalia of Japan. The essence of Japanese management is to consider the firm to be a community (communitarian capitalism: Marie Anchordoguy, 2005).

It is a reflection of the idea that firms are not a place to merely obtain wages based on labor contracts but a pseudo-family in which employees live harmoniously and grow up humanely. This pre-modern, feudalistic idea has been under pressure from globalization since the 1990s. What occurred in community-based Japanese firms in the 1990s under the pressure of globalization?

The main object of this study is a large-scale Japanese oil company called Idemitsu Kosan Co., Ltd. (hereafter Idemitsu.) This firm is a logical case study for the following three reasons. First, the firm was non-listed and had an extremely strong communitarian organizational culture under a charismatic founder who died in 1981.

Second, the firm encountered a serious financial crisis due to over-investment in the 1990s brought on by insufficient management resources available to effectively deal with an active expansion policy and diversification strategy. Third, it was listed on the stock market in 2006 and recovered from its crisis. The founding family's manager retired and a professional manager became CEO in 2002. Idemitsu is a recent example of the conversion from an entrepreneurial enterprise to a managerial enterprise in Japan.

This paper aims to analyze the following three problems. First, how can the governance structure between founding family, professional managers and financial institutions be changed? Second, how can professional managers combat organizational inertia in a large enterprise? Third, how should Japanese management change under the pressure of globalization?

Alfred Chandler describes the business history of the United States in his book "The Visible Hand" (1972). In it, Chandler classified various industries into two categories using the terms "entrepreneurial enterprise" and "managerial enterprise". For instance, in industries such as cigarettes and meat, the founder integrated his business vertically by investing his own capital, and expanded it repeatedly with additional investment funded from the firm's profits. As a result, the founder was able to maintain his influence as an owner even when the business had expanded. Chandler called this type of the firm an entrepreneurial enterprise. Industrial tycoons such as Carnegie in the iron and steel industry and Rockefeller in the oil industry ruled their large-scale enterprises for a long time in this way. Entrepreneurial enterprises, however, are not always stable. For instance, during a recession, if the founders lacked sufficient capital to revitalize their business, they are forced to depend on financial institutions or stockholders to obtain funds. It might result in the founder and the founding family losing the power to control the firm.

In general, as a firm's size increases, the founder's influence decreases. Companies need to raise funds when they are facing a recession or have to merge with another firm. This situation increases the pressure towards going public on the founder-led entrepreneurial enterprise. Moreover, there is no guarantee that the founder's children possess management talent of the same caliber as the founder. As a business increases in size, the founder's children tend to leave management to professional managers. For these reasons, when entrepreneurial enterprises grow to a certain size they often naturally change into managerial enterprises. Many entrepreneurial enterprises changed into managerial enterprises as the Japanese economy developed after World War II. As CEOs from the founding family retired, professional managers were promoted to the corporate leadership.

Of course there are exceptions to this general trend. For various reasons, some companies remain in an entrepreneurial state even though they have attained considerable size. Before 2006, there were three such companies, which were known as Japan's three largest non-listed firms. They were Takenaka Corporation (a large general contractor), Suntory (a beverage maker) and Idemitsu Kosan. At that time, because founding family members led the firms and their stock was not listed, the founding families owned and controlled their companies. Idemitsu Kosan made its debut on the stock market in 2006. What happened next? What was the process? Idemitsu's financial crisis was the trigger for going public. A large increase of interest-bearing debt made it difficult for the company to remain non-listed.

The way to an IPO was, however, not easy because this company was known to have a distinctive corporate culture. Sazo Idemitsu, the charismatic founder, was strongly opposed to a public listing during his lifetime. How was this firm able to launch a successful IPO and simultaneously succeed in restoring the firm to financial health? This paper details the process through which one of the largest family-owned companies in Japan successfully went public. However, we see this process was not easy as we look inside of the individual firm and see that it requires taking power away from the founding family. As soon as professional managers start to try to reform the governance of the company, the founder can dismiss them.

In Idemitsu's case, a manager tried to form an alliance with the firm's financial institutions in order to reform the governance of the company. Sazo Idemitsu died in 1981 and members of the Idemitsu family remained in top management thereafter. The financial condition of Idemitsu Kosan deteriorated with the so-called "bursting of the bubble" in Japanese economy in the 1990s. Akihiko Tenbo, the professional manager, was able to gain the support of the firm's lenders and other financial institutions and successfully take Idemitsu public. How was this possible?

2) Sazo Idemitsu: The Founder's Management Philosophy

It is instructive to briefly look back on this company's long history when thinking about its crisis during the 1990s. This crisis was caused by the firm's unique organizational culture. In particular, Sazo Idemitsu's management theories yield many surprises and insights even today. The history of Idemitsu is filled with episodes that display Sazo's knack for finding business opportunities under adverse circumstances.

Sazo Idemitsu[1] (1885-1981) was born in the town of Munakata in Fukuoka

[1] Many books on the history of Idemitsu have already been published. Sazo Idemitsu wrote many books (1962, 1965,

Prefecture. He graduated from Kobe Commercial High School (now Kobe University) in 1909. Sazo nurtured his own basic philosophy during his school days in Kobe and it remained with him throughout his life. During this time, Sazo saw businessmen tainted by excessive greed in Osaka. He disliked greedy capitalists and believed that judgment using one's personal moral character and respect for people are important to us as humans.

Sazo developed some core concepts during his time in school. The Principal of Kobe Commercial High School, a man known as Mizushima, influenced him with his idea of familial paternalism. Sazo learned a merchant theory of business from Dr. Renkichi Ikeuchi, also a professor at the school. The point of the theory is that merchants should be the link between producers and consumers and they serve a useful social function by doing so

First, let us consider Sazo's management theory, which came to be condensed into five basic principles. These principles can be translated as the following: "respect for people (*Ningen soncho*)" (Respect), "big-family-ism (*Dai kazoku syugi*)" (Paternalism), "independent autonomy (*Dokuritsu jichi*)" (Independence and Empowerment), "don't be a slave of money (*Kane no dorei ni naruna*)" (Denial of the Greedy Pursuit of Wealth) and "from producer to consumer (*Seisansya kara syohisya e*)" (Consumer-centered Business Mindset). These five principles still form the core of Idemitsu's business philosophy. The most essential amongst them is the first: Respect. This principle plays a central role in supporting Paternalism (Respect for employees and dealers) and Independence and Empowerment. Idemitsu has been known for valuing employees based on Paternalism and leaving big challenges even to young employees based on a transfer of authority policy. At the same time Sazo thought it was very important for merchants to deliver products in the best way for consumers instead of earning margins as a middleman. This has led to Sazo's Consumer-centered Business Mindset principle, which tries to exclude middlemen who mediate between producers and consumers. He may not be able to avoid involvement of share holders who require short term profit if he depends on stock exchange for fund procurement. This concept led to the Denial of the Greedy Pursuit of Wealth principle, which means management takes full responsibility for the firm's business activities and preventing interventions by shareholders, combined with his concept that a man does not work for money.

The principles of Respect and Paternalism meant that the business entity work

1969, 1971, 1972) himself. Important biographies of Sazo are written by Ayukawa (1977), Kimoto (1982), Takakura (1990), Horie (1998), Tsujimoto (2002), and Mizuki (2003). However, there are few books that describe the history of this company after the founder's death in 1981. The historical materials and financial data of this company available to scholars are few because the firm was non-listed until recently. See Kikkawa (1998, 2009) and Saito (1990, 1995).

with employees to try to improve productivity, and also relating to it, Independence and Empowerment meant to promote the transfer of authority to subordinates. These concepts support an effective communitarian mindset in Idemitsu. On the other hand, Consumer-centered Business Mindset is the avoidance of middlemen who only earn margins and do not provide added value. This means a denial of opportunistic behavior and creates a tendency to promote vertical integration, for example, in the form of internalization of refining and sales. (Dealers that cannot be internalized are treated as family members based on Paternalism.) Denial of the Greedy Pursuit of Wealth leads to the avoidance of a public listing, and a general rejection of market speculation. At Idemitsu, investments by entities that hope to grow the business are welcome. As a result, it can be said that loans from reliable financial institutions were deemed acceptable, and management therefore depended greatly on debt financing. The rejection of opportunism reflected Sazo's wish to make his company into one that can be trusted instead of a non-productive merchant who merely buys low and sells high.

As consequences of these five principles, the behavior patterns of aiming for high productivity together internally and keeping market competition firmly outside the company became prevalent at Idemitsu. Being supported by the founder's principles, Idemitsu developed a distinctive organizational culture and behavior patterns: employees' reception of intensive competition with high morale; employees' denial of governmental involvement and of the oil giants' collusive behavior in the market.

Alongside a sense of daring, high morale and independence resulted in employees' having an intense, can-do ethic in business matters. Throughout the long history of Idemitsu, their noteworthy character has been an aggressiveness to be number one in their market.

In summary, among Idemitsu’s five core management concepts, Respect and Denial of the Greedy Pursuit of Wealth derive from his antipathy towards business practices in Osaka at that time. Paternalism and Independence and Empowerment were born from Mizushima's teaching. And Consumer-centered Business Mindset originated from Ikeuchi's teaching. The management philosophy of Idemitsu has origins in Sazo's personal experiences and the historical background.

3) Sazo Idemitsu: The Founder’s Adversarial Character and Management Style

After graduating from Kobe Commercial High School, Sazo first worked as an apprentice at a very small shop to experience business firsthand. His friends were surprised. Sazo had worked as a tutor on a part-time basis during school. The person who hired him was Jutaro Hita. Hita gave Sazo a large amount of capital in 1911 because Hita evaluated Sazo's prospects highly and expected success. Surprisingly, Hita demanded nothing in return. Sazo established Idemitsu using this capital. It sold petroleum as a distributor of Nippon Oil (now JX Nippon Oil & Energy).

Because Idemitsu was a latecomer to the market , it was necessary for Sazo to aim at niche markets that other firms neglected. For this reason, in 1914 this company began to sell machine oil to Manchurian Railways in China. Idemitsu was a pioneer as a global enterprise in Japan before World War II. Machine oil often burnt because of insufficient viscosity in winter due to the extreme cold in Manchuria. Idemitsu conducted research to overcome this problem and developed better quality products than its competitors. This was the starting point of Idemitsu's lubricant business that is still active today.

Moreover, because latecomer Idemitsu had poor distribution channels, it decided to supply cheap diesel oil to fishing boats. Sazo sought foreign instead of domestic markets and found a new market on the sea instead of more conventional markets on land. These two examples were successful cases that eliminated its late-starter disadvantage. Idemitsu subsequently continued to sell oil to consumers in Japanese colonies, but it consistently opposed the Japanese military's oil regulations because they considered them to be inefficient. At that time, the international petroleum cartels formed by Standard Oil, Royal Dutch Shell and Texaco returned large profits in continental markets. In contrast, Idemitsu tried to sell Japanese oil at a fair price. The international petroleum cartels were hostile to Idemitsu because their systems for monopolistic profits were disturbed. Idemitsu lost all of its overseas branches at the end of the war in 1945. Approximately 1000 Idemitsu employees who worked at foreign offices returned to Japan at the end of the war, and Sazo did not fire even one of them.

In 1946, Idemitsu undertook a project to retrieve oil which was left at the bottom of underground tanks in the Tokuyama naval base. Idemitsu was the only bidder for the contract because the working environment was severe. By succeeding at this very difficult task, Idemitsu employees were inspired to believe that they could accomplish anything. Finally Idemitsu was licensed as a primary distributor in 1949, able to conduct both wholesale and retail sales concurrently. (Japan's domestic market was highly regulated at the time.) Idemitsu imported premium grade gasoline from the United States and sold it under its "Apollo" brand domestically from 1952. Idemitsu's product was seen as high quality because gasoline generally available in Japan at the time was of poor quality. However, Oil Majors hostile to Idemitsu pressured petrol traders located on the West Coast of the United States not to sell gasoline to Idemitsu.

Idemitsu had to go far afield from the West Coast to procure oil. Idemitsu repeatedly challenged the Majors and there was a tense atmosphere between them. At the same time, the Mosaddeq government of Iran nationalized its oil fields which had been controlled by the Anglo Iranian Oil Company (now British Petroleum, BP). However, the Iranian government was having difficulty in selling its oil because BP threatened to impose sanctions on any company who purchased oil from Iran. In spite of BP's threat, Idemitsu boldly sent a tanker called the Nishomaru to Iran in 1953. It would have developed into a major international incident if British naval forces seized the tanker. After a tense voyage, the tanker finally succeeded in bringing a large shipment of oil to Japan.

BP took this to be an illegal act and took legal action, but in the end it was settled when BP withdrew its case. Idemitsu had won. The "Nishomaru Affair" was well known in Japan and it displayed Idemitsu's can-do spirit to Japanese citizens discouraged after the defeat of World War II.

The Majors were threatened by Idemitsu's fearless attitude and the firm was often subject to obstruction and pressure. Because it did not have its own refinery, however, Idemitsu could only import petrochemical products like "Apollo" gasoline and sell them. Idemitsu therefore thought it was important to build its own refinery so as to increase its autonomy and to not be forced to compromise with the Majors in the future. The company purchased land in the Tokuyama naval arsenal and established its first refinery there in 1957. Further, in 1960, Idemitsu began to import crude oil produced in the Soviet Union, where the Majors' influence was weak. In the context of the Cold War, this was a daring action indeed.

There were people who did not like Idemitsu not only in foreign countries but also in Japan, because it frequently went its own way in spite of frictions with other firms and government officials. This resulted in the Petroleum Act (enforced in 1962), which introduced a system of production controls for the ostensible reason of preventing excessive competition. The real reason, however, for the introduction of the system was that Japanese firms united with foreign companies feared Idemitsu would increase its market share rapidly. They wanted to restrict Idemitsu's activities using an allocation system under production controls enforced by the government. Effectively, they had attacked Idemitsu by means of industrial policy. In response, Idemitsu withdrew from the Petroleum Association of Japan. This was regarded as a bold move because in the 1950s and 1960s MITI was powerful, possessing many ways to give administrative guidance to firms through industrial associations. Withdrawal from the association meant the company rejects the government's guidance. Idemitsu was thought to be a very independent-minded company and no one could predict what it would do next. This production adjustment system was abolished in 1966 and thereafter Idemitsu returned to the Petroleum Association of Japan.

As a domestic oil company that did not consistently cooperate with foreign capital, Idemitsu resisted the monopolization of Japan's domestic market by the Majors. It opposed regulations by both the military and the government under the banner of protecting consumers. (Surely some measure of self-interest was involved well.) Idemitsu did not yield to pressure from foreign firms and the government. Following its management philosophy, it never dismissed employees. These characteristics formed Idemitsu's unique organizational culture.

There is no doubt that Idemitsu's growth through the 1970s was led by Sazo's energy and philosophy of management. Aggressive expansion was a mainstay of its growth during Japan's high economic growth period. After Sazo died in 1981, through the 1980s the company kept growing using its business model based on bold investment and expansion. Asset prices rose continuously at that time in Japan. However, when a serious recession occurred in the 1990s, the expansionary policy brought this company to the brink of a serious financial crisis. A policy of "independent autonomy" for its various business units functioned well under a great founder in a period of high economic growth. Under this policy, all divisions wanted to invest aggressively, and top management was not able to keep them in check after the death of the founder. It was Tenbo Akihiko, an accounting manager, who recognized this situation as a crisis and took the first action against it.

4) Akihiko Tenbo: The Professional Manager

How did Idemitsu move toward a stock exchange listing? To find the answer, it is necessary to look into the career development of Akihiko Tenbo (the present chairman) who set a public listing as one of the primary corporate goals. Tenbo returned to Japan in 1991 after serving as president of Idemitsu Europe for three years. At this time, he became the accounting general manager and he was stunned when he saw the investment plans of Idemitsu Kosan. Tenbo described the situation as follows.

> [Idemitsu] made plans like doubling debts without hesitation although it was clear that Japanese economy would subsequently shrink. For stock prices and land prices have started to fall, I thought, "How such an investment plan could be made?" It was a plan of doubling borrowing compared to the previous plan. It was unregulated process such as a

plan of additional borrowing exceeding 1,000 billion yen.[2]

In 1993 when Idemitsu group's debt load reached its peak, Tenbo was in the position of accounting general manager. He felt that bank's stance in lending was becoming severer because he was in charge of contacting the banks personally. Though he raised this as an issue internally, little reaction was forthcoming. At the time, one senior executive denoted that an Idemitsu accounting general manager should simply collect money without speaking a word.[3]

> I could do nothing about the big projects that already started but could not put up with such a situation. At every opportunity, I warned, "Japanese economy will shrink. If this goes on, we will face serious problems."
> In two to three years, the economy has actually started to shrink and everybody then began to take it seriously. It was a kind of change, since I was even ignored at the board meetings in the earlier time.[4]

The extraordinary number of investment projects indicated that many of them had been approved without top management's verification. There was an idea that the asset values would always increase, and that by holding a large amount of facilities and lands profits could be had. This perspective was derived from a rough assumption of a continuously growing economy.[5] However, such a situation marked a big turnaround, as a steep decline of land prices in the 1990s followed. Tenbo immediately started sorting investment projects.

Idemitsu had kept investing in oilfield development, enhancement of refineries, and land procurement at a scale of 100 billion yen per year. And it was all financed with borrowed money. Such a stunningly large amount surprised rival companies.[6] Though the loans were invested in core businesses such as petroleum refining and petro-chemistry, there is a presumption of trust based upon the principles of Paternalism as well as Empowerment, and this led to unregulated investments.[7] To make matters

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[2] Syukan Diamond (Diamond Weekly), 18 November 2006.

[3] Ibid.

[4] Ibid.

[5] Nikkei Bizinesu (Nikkei Business Magazine), 26 November 2006. See statement of Ken'ichi Matsui (Managing Director).

[6] Nikkei Sangyo Shinbun (Nikkei Business Daily), 29 November 2001.

[7] Nikkei Business Magazine, 26 November 2006.

worse, after the economic bubble adjustment measures in the oil industry were delayed compared with other industries due to the outbreak of the Gulf War in 1991. Under the policy of securing a certain level of profit for oil companies under the guidance of Ministry of International Trade and Industry (MITI, the present day Ministry of Economy, Trade and Industry), the oil industry continued to enjoy favorable conditions while other industries experienced a severe downturn. For example, the gas station network kept expanding even after the bubble and subsequently Idemitsu rose to number one in sales among oil companies in 1995.

Tenbo, together with the President at the time, Akira Idemitsu, explained the necessity of stock exchange listing to Chairman Shosuke Idemitsu for the first time in 1995. The two felt that the situation of the company was critical, and explained the necessity of a listing. Tenbo visited Shosuke frequently. However, the stock exchange listing was not officially determined for the next several years. In the background loomed Sazo's words[8], "after all, zero capital is ideal" or "public offering could cause a fall of Idemitsu."[9] However, during the long economic slump, the debt-based financial policy began to be a threat to fund procurement.

In September 1998, an unexpected and unpleasant event for Idemitsu occurred. US credit-rating agency Moody's Investors Service assigned a "B2" non-investment grade rating to Idemitsu's debt. It was something of a surprise attack. In May of the same year, Moody's informed Idemitsu that they wanted to assign the rating but Idemitsu rejected it. But Moody's rated Idemitsu anyways. After the rating announcement, Idemitsu held a press conference. At this conference, Tetsuo Iseki (accounting director) said that Moody's had assigned the rating without fully understanding the management principles of the company.

> The mottos of this company are Respect and Consumer-centered Business Mindset, and we have not pursued economic rationality only. There is a difference with Moody's that focuses on capital efficiency . . . Though we have not changed our management principles since the firm's founding, we hope to focus on improving capital more than ever. The reduction of interest-bearing debt can be realized by cutting down of surplus funds, reduction of investments in plant and equipment, and sale of assets. In our interim budget this September, we will certainly secure current-account surplus. We have no plans to increase capital for strengthening

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[8] In addition to his five principles, Sazo had a number of sayings and mottos.

[9] Idemitsu (1962), 37 and 233. During the World War II Idemitsu had to change to joint-stock corporation forced by Japanese army. (1962: 37). According to Idemitsu (1969: 69), Idemitsu maintained the form of joint-stock corporation after the war because individually-owned company is very unfavorable in tax laws.

equity capital.[10]

In September 1998, the main financing banks for Idemitsu were Sumitomo Bank, Bank of Tokyo-Mitsubishi, Tokai Bank and Sumitomo Trust and Banking Co., and there were other about 100 financial institutions that had dealt with Idemitsu. The lending outstanding of the four main financing banks were about 90 billion yen per bank.[11] It is said that the basis of assigning low grade for Idemitsu by Moody's was the large interesting-bearing debt against equity of this company. Indeed, the interest-bearing debt as of the fiscal year ending in March 1998 reached about 2,000 billion yen. Not only does borrowed money decrease in value during a relatively high-inflation economic growth period, the tax office regarded interest on corporate debt as a tax-deductible business expense. However, the economic growth that was the basis for these advantages could not be expected to continue during the second-half of the 1990s. There was a fear among financial institutions that Idemitsu might not make good on its debts. That would be one reason why Moody's released the rating.[12]

At the time, financial institutions were hard-pressed to clear their books of non-performing loans and were not able to increase lending to Idemitsu. In this period, Idemitsu had to pay the entirety of its annual business income as interest on its debt. Financial institutions were afraid of arrears of interest, in case the income of this company would significantly decrease in the future. If so, outstanding interest could further increase Idemitsu's debt load. It was a vicious cycle that the financial institutions had to avoid. For Idemitsu, this sort of financial condition meant a lethal crisis concerning the survival of the company itself. As far as Idemitsu could not rely on banks, it could only procure funds by a stock exchange listing. Tenbo described the situation of this period as follows.

> It was around 1998 when I began to contact the banks. I also worried very much at the time whether the stock exchange listing was really good or not . . . The banks were also in a severe situation because of non-performing loan problems at the time and some banks went bankrupt. We had to go on our own. The bubble economy has already collapsed and financial institutions accepted increase in capital, and we could not ask them anymore.[13]

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[10] Nikkei Business Daily, 22 September 1998.

[11] Ibid.

[12] Ibid.

[13] Diamond Weekly, 18 November 2006.

For stock exchange listing, there were many discussions concerning the interpretation of Sazo's opposition to public offering. Sazo's words were deeply rooted in their minds.

5) Idemitsu's Recovery Plan

After the Moody's rating, Idemitsu deployed its countermeasures.[14] It was a substantial corporate recovery plan. The first step leading to a later public listing was taken; a change in business strategy was to follow. In the background, there were also changes in the nationwide financial and accounting systems during the late 1990s. At the time, the government promoted global fund procurement for companies by conforming to international standards as an accounting and finance "big bang" . The government also began to pressure Japanese companies to adopt disclosure standards in accordance with international best practice. In that circumstance, the policy also affected unlisted companies such as Idemitsu. To meet the institutional accountability requirement, Idemitsu formulated a new plan. The primary target was sound financial condition.

The purpose of Idemitsu's recovery plan was to improve earnings and repay interest-bearing debt. It involved thorough cost cutting, reduction of fixed costs including disposition of excessive refining facilities, paying down loans by selling dormant inefficient assets, more efficient use of existing assets, sale of non-core businesses, and even enhancement of competitiveness by alliances with other firms. This last measure was particularly galling for independent-minded Idemitsu employees.

This plan was created by leaders of each department gathered cross-functionally under Tenbo's supervision; they then worked with each issue in detail to formulate the grand plan. Among them was Kazuhisa Nakano, who will later succeed Tenbo as President. A10% across-the-board pay cut was put in place for three years from 1999.[15] Under the principle of Respect, Idemitsu choose to not cut jobs but rather to share the pain together. Tenbo made the crisis very visible, and persuaded many power-brokers within the company with convincing data and actual figures. Under such circumstances, those employees also came to share an awareness of crisis and the necessity of working together to implement the plan.

Tenbo had one more challenge: getting the founding family's consent to a stock exchange listing. In 2000, five years after Tenbo began regular visits to the founding family to persuade them to take this course of action, Shosuke Idemitsu, the Chairman,

[14] Nikkei Business Daily, 29 June 2009.

[15] Nikkei Business Daily, 19 May 2000.

finally accepted the stock exchange listing. In May of that year, Idemitsu announced that it requested financial institutions to facilitate the allocation of new shares to third parties, thereby accepting external capital for the first time. Until 2001, the firm issued preferred shares worth some 37.8 billion yen to five companies such as related financial institutions.[16] Tenbo described the series of exchanges with the founding family as follows:

> It was not a one-shot meeting and we discussed many, many times. It was a five-year-old meeting. When the introduction of external capital was announced [in 2000], the storyline [scenario] to the stock exchange listing had been made.[17]

The following year, 2001, Shosuke Idemitsu resigned from the post of Chairman. While Idemitsu offered shares to the public through the stock exchange listing, it made arrangements such as forming an employee stockholding society in 2001 and having 80% of employees hold shares.[18] It was thought that if employees hold shares, it would not only restrain the influence of external shareholders but also comply with the iron principle of Paternalism.

It was also important to define internal controls and decision-making processes in order to avoid excessive investment in the future. Tenbo began to create regulations for authority of management when he assumed the presidency in 2002. Within Idemitsu, it had been considered to be important to give employees wide leeway to make decisions and have them work at their own discretion. Thus, the authority of business divisions was very strong. In order to avoid the problems of decentralized authority, it was necessary to formulate strategy at a company-wide level and build a system to execute that strategy in a unified way. However, it was not easy to build an internal control system, because it conflicted with the traditional personnel system of Idemitsu.

Idemitsu's personnel system was unique. It contains policies such as "no firing", "no retirement system", "no labor union", "no attendance book", "no public announcement of salary", "salary is to assure livelihood and is not the mere peddling of labor" and "employees do not receive overtime pay".[19] Employees should not be bound with rules. Families do not have a retirement age, restructuring, nor an attendance book. "If every employee of Idemitsu recognized the company as a family, those would be

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[16] Nikkei Business Daily, 29 November 2001.

[17] Diamond Weekly, 18 November 2006.

[18] Nikkei Business Daily, 20 November 2006.

[19] Idemitsu (1971), 109-113. Idemitsu (1965), 77-88.

unnecessary.” Moreover, there is no limit on the payment of salary during a long-term absence.[20] These were the so-called “Seven Wonders of Idemitsu” which were considered as the source of the employee’s strong sense of solidarity and high motivation.

Idemitsu’s unique ways supported the policy of Independence and Empowerment of subordinates and the policy of allowing employees’ to make snap decisions.[21] However, the establishment of an internal control system would reverse the traditional personnel control system of Idemitsu, limiting its freewheeling way to certain extent. In that circumstance, however, Tenbo improved the internal system by clearing barriers one by one through further systematic persuasion.

6) Concluding Remarks

In conclusion, we will summarize the essence of the story. When Idemitsu Kosan faced financial crisis in the mid-1990s, it formulated a recovery plan that included listing itself on a stock exchange. At the beginning, the management faced many objections since the concept of a public listing was against Idemitsu's essential principles of business. This was a skeptical reaction against an IPO because it was thought that it would ruin the goodness of Idemitsu. First, Tenbo gathered cross-functionally core employees that mainly consisted of able middle managers and had them quickly formulate a recovery plan to define cost reduction targets and modes of strategic transformation. The recovery plan streamlined management but at the same time tried to fulfill the founder's will in its core business principles. Once internal consensus had at last been reached, they were able to push forward the strategic corporate transformation. Once a decision had been reached, because of its corporate culture Idemitsu was able to easily unify its efforts to one targeted goal.

Tenbo, an expert of financial management, played a central role in, firstly, assessing the disastrous financial condition of the firm, and sharing this idea and its consequences with the employees in the most effective manner. Once employees understood and agreed with his daring plan for major reforms, prompt execution of his plan was commenced. Tenbo strenuously carried out closure of oil refineries and sale of

[20] Nikkei Business Daily, 24 October 2006.

[21] Idemitsu Kosan Co., Ltd. President' Office (1962), 62. We can see Idemitsu's ideals in the following phrases: “Organizations are unnecessary if the company and its employee's activities are lively and the business purpose is attained.” “In fact, there are not complex organizations and mechanisms in Idemitsu.” “Idemitsu won't establish organizations from the beginning. Organizations are formed automatically while we are working”.

welfare facilities (such as employee dorms), new alliances with other companies, and restructuring of subsidiaries; some of these restructurings were completely unprecedented due to the founder's rigid principles of management. He was successfully able to persuade both the founding family and employees to support his plan. As a consequence of his effort, he succeeded in accomplishing both corporate transformation and financial recovery.

In the 1990s, many Japanese firms began to change their traditional management style when faced with globalization and harmonization of financial and accounting systems. Idemitsu's case is a typical example of such an experience. Rapid globalization triggered the reforms in this company. Until then, the company had unique management practices under a community-based organizational culture which had been established by the charismatic founder. However, financial globalization and deregulation forced the company to reconsider its funding methods because the banks would no longer lend in the customary way. The IPO was an alternative to finance the operations of the firm, but there was reluctance by the founding family and employees because the founder had been against external capital. Nevertheless, a professional manager reformed the firm decisively.

(1) Financial globalization: This reform started as a repair to weak points in the governance structure of this company under pressure from the globalization of finance. The company tried to maintain its employment practices based on management communalism. The top management from the founding family was not able to control investment by each department based on a company-wide perspective because of Idemitsu’s principle of “independent autonomy”. This failure of internal controls resulted in the buildup of an extremely high debt load in the 1980s economic boom. The total funds lent by financial institutions increased dramatically. In the 1990s, financial deregulation was enacted because the Japanese government decided to shift its systems to accord with globalization. It was difficult for Idemitsu to be dependent on banks for its financing needs. One professional manager started to reform the company using the crisis as the initial driving force.

(2) Governance reform: The professional manager changed the governance of the company that had been mainly controlled by the founding family with the assistance of finance institutions. He thought the concentration of responsibility in the top management of the founding family to be a problem. On the one hand, the owner can make decisions rapidly. On the other hand, if a mistake is made, the firm easily loses profits. He thought that it was important for Idemitsu to open its ownership to the public and to be controlled by professional managers in order to accomplish the firm’s social

responsibilities, because the great, charismatic founder was no longer available. Then, supported by banks, he persuaded the top management of the founding family to open the ownership of the company to the public by means of an IPO. He told the top management that financial institutions would not finance the firm any further. That shook Chairman Shosuke most of all. The founding family did not agree to a listing because they wanted to remain true to the founder's philosophy. In the end, however, he bent to the will of the financial institutions and was not able to escape from accepting the IPO.

(3) Reforms by professional managers: Almost no one within Idemitsu was aware of the IPO plan before 2001; the plan was a well-kept secret. Some employees and especially retirees and alumni had feelings to long for the past of the company. It was important for Idemitsu to introduce modern management practices without losing its organizational culture as a community. Moreover, new business initiatives were started, taking the opportunity afforded by the crisis. When non-listed companies go public, various unexpected events tend to occur. Idemitsu's case was a successful example of reform by professional managers. Unique management practices that originate from the culture of each country will gradually weaken as the ground rules of capitalism are standardized internationally in the future. Conflicts will often happen within companies during the course of the transformation. Taking the opportunities afforded by the crisis, management can review how to reorganize its business structure and change the direction of the firm. If capitalism’s driving force can be said to be innovation, it is necessary to grope for the best way of effecting organizational change during adversity. Idemitsu’s case shows us one such way.

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