An Analysis on the Reengineering of SOGO SHOSHA’s Functions

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Keywords: SOGO SHOSHA, function, empirical, analysis, reengineering

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Introduction

Japanese General Trading Companies (GTCs) or SOGO SHOSHA can be referred to as “large-scale commercial distribution industry centered on wholesaling”. As a type of large traders, GTCs are distinct from manufacturers, transportation industries or financial institutions. Furthermore, they also differ from general wholesalers, although these companies center their activities on wholesaling, and are often classified into wholesale industry on the standard industrial classification and other various statistics in Japan.

Traditionally, Japanese domestic wholesalers, or TONYA, specialize in a particular operation in some specific commodity or commodity group, and generally limit their activities within the domestic market. SOGO SHOSHA not only engage in commercial distribution of diverse commodities, both domestically and internationally, but are also involved in various activities ranging across transaction, finance, investment, technology, mining, oil and gas exploration, and information. Thus, although labeled as a "general trading companies," SOGO SHOSHA actually go far beyond the trading activities of exporting and importing.

Today in Japan there are only five leading trading companies that can be called SOGO SHOSHA, they are Mitsubishi Corp., Mitsui & Co. Ltd., Sumitomo Corp., Itochu Corp., and Marubeni Corp.

As unique Japanese institutions, SOGO SHOSHA have played a highly significant role in the historical development of the Japanese economy, especially in the period of early industrialization and high economic growth of Japan. From the MEIJI Era (1868-1912), trading houses, the predecessors of SOGO SHOSHA, were the pioneers of Japanese overseas trade by importing raw materials, technology and capital facilities and exporting manufactured goods. Compelled by a trade-oriented mentality, these trading companies came to dominate the commercial life of Japan and, in particularly, to spearhead Japan’s integration into the world economy. They handled only 1 per cent of the Japanese foreign trade in the year 1874; however, by the year 1918 the figure reached 80 per cent, (Masaaki Kotable, 1984).

What makes these GTCs unique is their large scale, immense operation scope, extensive network of international operations, and diversity of activities and commodities.

“Large-scale” refers to these companies’ tremendous amounts of annual sales. These figures are often
compared with some macro economy indexes of Japan, such as GDP, GNP, government budget, and exports and imports. The total annual domestic sales of the nine largest companies amounted to 31 per cent of Japan's gross national product, (Shao, Alan T, Herbig, Paul, 1993). The six leading companies-- Mitsubishi, Mitsui, Sumitomo, Marubeni, Itochu and Nissho Iwai-- still climbed up turnover of around 1000 trillion yen (10 trillion dollar), equivalent to a quarter of Japan's GDP, (Economist, 1995). The total annual sales of the nine largest companies were 1,042,000 trillion yen, nearly 1.5 times of Japan's national budget, (Takagi Yoshio, 1995). The GTCs accounted, in the early 1990s, for around 70 per cent of total Japanese imports and 40 per cent of total Japanese exports, although their share has been declining, (Yamanaka, 1996). At the same time, they accounted for about 10 per cent of world exports trade, (Herbig, Paul Shao, Alan T 1997). Even following for the difference in meaning of sales-turnover between manufacturing and trading companies, these figures must be said to exhibit them as being monsters.

Also, the GTCs deal with an extremely wide range of commodities, extending their operation scope over 20,000 different products items, --“from noodles to satellites” as the saying goes. Even in major article groupings they include metals, machinery, energy, chemicals, textiles, foods and miscellaneous goods. By creating and using their worldwide offices network, these companies are free to engage in export, import and domestic transactions from standardized to very complex levels, subject to the normal fair-trade restrictions that any other Japanese firms would face.

Either in Japan or the world, these GTCs really are giant enterprises. For example, in the year 1972, the annual sales of all of the GTCs exceeded 1,000 billion yen. Mitsubishi Shoji with 5280 billion yen was at the top; even tenth-ranking Nichimen Jitsugyo made 1,160 billion yen. Since big enterprises with annual sales exceeding 1,000 billion yen in all industries counted only fourteen in the year 1972, the top ten trading companies constituted the top class together with Shin-Nihon Steel, Toyota Auto Sale, Nissan Auto and Toyota Auto. In another example, in a ranking according to annual sale in 1980s, Mitsubishi Shoji ranked number one in Japan, and the fourth all over the world, (Nikkou research center, 1980). At present, as Japan's largest SOGO SHOSHA, Mitsubishi Shoji currently employs a multinational workforce of approximately 54,000 people together with 550 consolidated subsidiaries and affiliates, has 43 branches and offices in Japan, and has 118 offices and subsidiaries and 77 affiliates (39 main offices and 38 branches) in approximately 80 countries worldwide.

But, although SOGO SHOSHA are surely massive companies in their own right, in terms of both their immense scale, and diverse activities and commodities, they have been facing with serious operating
problems in recent decades.

It was often said that SOGO SHOSHA were the driving force behind Japan's global economic effort and an integral part of the Japanese miracle. And, they had been called “the epitome of the Japanese economy” before the late 1980s, because some regression correlation had been observed between their performances and Japanese macro economic indexes. But, then in 1990s, this regression correlation has been disappearing, (Uchida, 1991). In other words, it may be said that the degree of correlation decreased between the developments of SOGO SHOSHA with that of the Japanese economy. What’s more, the role of these companies in the Japanese economy has declined as the circumstances changed.

The annual sales of the GTCs declined by around a quarter from the mid-1980s to the year 2000, (Tom Roehl, 2004). In addition, the nine big trading companies' gross profit margins have slumped in the past years: to 1.3 per cent on sales of 127 trillion in the year 1991, down from 2.2 per cent on sales of 50 trillion in the year 1977, (Economist, 1991). Figure 1 shows the change of annual sales of the current five GTCs during the past 30 years.

By the year 1985, annual sales of all the five companies were increasing rapidly and steadily. And after a marked drop in the year 1986, the volumes of almost all companies went up rapidly achieving a peak value in the year 1989. The total sales of the nine big GTCs in that year were 1,299 trillion yen, which equaled to 32 per cent of the Japanese nominal GDP, (Asuka, 1996). But from the year 1990 to the year 2003, these companies suffered a long-term decline. By the year 2001 the total sales of these nine GTCs decreased to 501 trillion yen, amounting only to about 60 per cent of the previous attained maximum and 10 per cent of the GDP, (Mukai, 2003).
While, the new fact that must to be noticed is that recently, after experiencing the brunt of the 15-years recession of Japanese economy, the GTCs are bouncing back in business. Like the rest of firms in Japan, these big trading companies have gone through a series of reforms, such as ruthless restructuring, cutting staff, jettisoning subsidiaries in so-called the collapse of ‘bubble economy’ period since 1990s.

According to the latest annual report, all the five GTCs achieved record performances in the fiscal year 2006. Mitsubishi Corp. announced its third straight year of record earnings. Its consolidated operating transactions (sales) totaled 19,067.2 billion yen, and the gross profit increased to 1,051.5 billion yen. As a result, its net profit grew by 92 percent over the previous year 2005, reaching 350 billion yen. Additionally, the consolidated net income of Mitsui & Co., Ltd reached 202.4 billion yen, a record high for the third consecutive year, up from 121.1 billion yen in the year 2005 and 68.4 billion yen in the year 2004. The return on equity (ROE) also improved considerably to 14.5 per cent. Similarly, Itochu Corp., Sumitomo Corp. and Marubeni Corp. also renewed record-high consolidated gross profit, net income and sales, with a year-on-year increase in the past three years. Table 1 shows the performance of the five GTCs based on consolidated financial statements in the fiscal year 2006.
**Table 1:** Performance of the five GTCs (Consolidated Base, Fiscal 2006) (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Total Trading Transactions</th>
<th>Gross Profit</th>
<th>Net Income</th>
<th>Net Income Per Share (Yen)</th>
<th>Return On Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsubishi Corp.</td>
<td>19,067,153</td>
<td>1,051,481</td>
<td>350,045</td>
<td>215.38</td>
<td>18</td>
</tr>
<tr>
<td>Mitsui &amp; Co.</td>
<td>14,885,728</td>
<td>816,617</td>
<td>202,409</td>
<td>126.26</td>
<td>14.5</td>
</tr>
<tr>
<td>Sumitomo Corp.</td>
<td>10,336,265</td>
<td>706,600</td>
<td>160,237</td>
<td>130.18</td>
<td>14.3</td>
</tr>
<tr>
<td>Itochu Corp.</td>
<td>10,473,885</td>
<td>714,374</td>
<td>145,146</td>
<td>91.74</td>
<td>23.5</td>
</tr>
<tr>
<td>Marubeni Corp.</td>
<td>8,686,532</td>
<td>502,024</td>
<td>73,801</td>
<td>40.46</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63,449,563</strong></td>
<td><strong>3,791,096</strong></td>
<td><strong>931,638</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Annual Report (2006) of each company

Note: Total Trading Transactions (sales) is a non-GAAP measure, but a measure used by similar Japanese GTCs on the basis of accounting principles generally accepted in Japan

**I. Angle and framework of analysis**

Actually, since the 1960s, almost every ten years there has always been predictions that the “middleman will die” in Japan, the so-called theory of “crisis of the SHOSHA”. At the beginning of the 1960s, some scholars predicted a trend called “separating from SHOSHA” or “eliminating SHOSHA”. In the famous “sunset theory”, they proposed that with the growth of industry capital and the coming of circulation reform, the SOGO SHOSHA would become a useless appendage.

But, in the face of such incessant pressure and challenge, although these firms have fallen into difficulties, but they have not disappeared or become extinct as predicted.

**Angle and purpose of analysis**

There is a voluminous literature on the growth and future of SOGO SHOSHA. However, in this paper rather than debating whether these companies will win out or die off, the more interesting investigation concerns the adjustment process itself.

This article emphasizes on redesigning or reengineering of SOGO SHOSHA’s functions, based on the
exploration of the transformation of their businesses and operation structure. That is to say, while drawing upon the early literature as background and context, this paper adopts a rather different perspective, one which explores the changing relations between SOGO SHOSHA’s businesses and functions.

The principal focus is the empirical analysis about the evolution of SOGO SHOSHA’s functions on the basis of financial data in the respective period under the particular economic environments.

All of the major GTCs began during the MEIJI period. The two largest companies-- Mitsui Bussan began in the year 1876, and Mitsubishi Shoji was created as the marketing arm of the Mitsubishi group in the year 1889, (Kirpalani, 1985). With the four major family-based ZAIBATSU groups being dismantled by the US Occupation Authorities, the ZAIBATSU-related companies Mitsui Bussan and Mitsubishi Shoji were dissolved after the year 1945. Then Mitsubishi Shoji re-emerged in the year 1954, and Mitsui Bussan revived in the year 1959.

A series of acquisitions and mergers abounded during the 1950s and 1960s. By the mid-1960s, ten large SOGO SHOSHA remained. Then, the bankruptcy of Ataka Sanyo in the year 1977 reduced the number to nine: Mitsubishi Shoji, Mitsui Bussan, Sumitomo Shoji, Marubeni, C. Itoh, Nissho Iwai, Kanematsu Gosho, Tomen and Nichimen Jitsugyo. With the shift to SENMON SHOSHA (specialized trading firms) of Kanematsu in the year 1999, the merger of Nissho Iwai and Nichimen in the year 2004, and the recent merger of Tomen and Toyota Tsusho in April 1, 2006, the present framework of big-five SOGO SHOSHA emerged.

Therefore, the current five big SOGO SHOSHA will be chosen as the research object, especially the most representative SOGO SHOSHA-- Mitsubishi Shoji will be used as an example. The focus of study is primarily drawn on the evolution of business of these five companies after World War II, especially from the rebirth of the two big traders in the 1950s, because since then, they have been called SOGO SHOSHA, (Ohki, 1975).

By observing every index of their activities including sales volume, capital, employees, subsidiaries and operating profits in the past, it is possible to find how these companies adjusted their businesses and adapted themselves to changing conditions and severe competitive environments. Furthermore, throughout this study it is possible to explore how their various functions have transformed and changed.

The composition of commodities (commodity groups) and form of dealings within the respective GTCs are almost equal. Hence, amidst overall growth some business or commodities may have developed while others declined in the course of time, and by observing the relation between growth and decline it is possible to grasp the trend of business adaptation. Moreover, based on this analysis, it is possible to find the pattern of
function transformation.

**Hypothesis and framework of analysis**

Traditional literature believes that the reason that the GTCs have been able to adjust themselves as the environment changes is due to their unique functions.

Here, a hypothesis that “the functions of SOGO SHOSHA have been changing with the shift of their business structure” is by proposed. In concrete, one thesis that “some of the functions will grow weak, while other will strengthen, and some new function may be created.” is assumed.

If such state is real, the change in SOGO SHOSHA's functions must correspond to the transition of their transformation forms and contents, or more concretely it must be reflected in the change of their financial indexes.

Thus in this analysis the central point is based on the changes on sales and profits volume, assets and investments composition, numbers of subsidiaries and employees, using data from recent decades. First, some basic views about SOGO SHOSHA's functions are outlined briefly by reviewing early studies, notably primary and typical literature. Second, data analyses on financial indexes of SOGO SHOSHA are done to see how these companies’ business structure has changed. Third, utilizing these empirical findings, some of the issues are addressed surrounding the redesigning or reengineering of SOGO SHOSHA's functions, and then the hypothesis mentioned above is examined. In the concluding section, a perspective is proposed on searching for new function and exploring new business model of SOGO SHOSHA.

The materials used are Securities Reports (Yuukashoukenn Houkokusho), Annals of Companies (Kaisha Nennkann), and Annual Report for financial data, Japanese Statistical Yearbooks (Nihon Toukei Nennkann), Industrial Statistics (Kougyou Toukei hyou), and homepages of the respective GTCs and other miscellaneous statistics. Financial data are on one-year base, and generally the one-year refers to the fiscal year that begins on April and ends on March next year.

**II. Literature review on the functions of SOGO SHOSHA**

About the functions of SOGO SHOSHA, the primary results of early research are summarized as following.

In the first place, according to a basic study from Kojima and Ozawa, most of the GTCs tend to perform
three basic functions. One role is to serve as an intermediary for all marketing, import and export transactions. They act as market intermediaries for domestic and international distribution of Japanese manufacturers. Another function is to perform financial intermediary activities. These trading companies supply short- and medium-term loans associated with their trading activities as well as offering equity capital to aid their own suppliers. A third function trading companies perform is information-gathering. These firms collect economic, social, political, legal, cultural and technological information, and do it very well. In fact, it has been noted that the information-gathering done by SOGO SHOSHA is superior to that of the Japanese government, (Kojima and Ozawa, 1984).

Secondly, according to a research done by Peter Dicken and Yoshihiro Miyamachi, the major function of SOGO SHOSHA was classified into four major categories. First, the primary function of these companies is trading or transactional intermediation, which match buyers and sellers of diverse products in a long-term contractual relationship. The second function is their role as financial intermediation or quasi-banking, serving as a risk-buffer between supplier and purchaser firms in intermediate product markets. By participating in the transaction as a financial intermediary between supplier and purchaser, they consolidate these risks and spread them over many transactions with firms in a diverse range of industries. The third function concerns information or intelligence gathering by developing a globally extensive network infrastructure. The last function is about organization and coordination of complex business system. The combination with the above three basic functions enables it to act in a unique way as organizers and coordinators of entire production systems at an international scale, (Peter Dicken and Yoshihiro Miyamachi, 1997).

In another more detailed research, Shao, Alan T, Herbig, and Paul summarized how Japanese general trading companies serve a multitude of functions which include the following, (Shao, Alan T, Herbig, Paul, 1993).

Financial services (to both buyers and sellers): these companies extend credit, make loans, provide loan guarantees, and develop venture capital. They can borrow from the most advantageous sources in international capital markets and channel these funds to clients. They can act as a risk buffer by absorbing the financial risks for clients but secure competence and hence profits in foreign exchange handling and investment fund operations. They act as financial intermediaries between giant commercial banks, particularly keiretsu sister banks.
An Analysis on the Reengineering of SOGO SHOSHA's Functions (Meng)

Information services: these companies provide up-to-date information on clients worldwide. Mitsubishi's 232 offices send in more than 30,000 pieces of information daily. They act as the eyes and ears for its keiretsu, spotting business trends, market gaps and investment opportunities.

Risk reduction services: these companies offer foreign exchange management, letters of credit, and insurance. They accept all risks and can disperse the risks created by changes of merchandise values or in the exchange rate. Some of their essential functions include providing information, transaction, financing, transport, and market development.

Organization and co-ordination services: these companies take on complex projects and pool capital to share risks.

Auxiliary services: these companies offer documentation, freight forwarding, and customs information.

Services are at a cost reduction and have greater capital efficiency due to economies of scale: Smaller firms that cannot afford their own market information network can link up with GTCs’ network. The client company can enjoy the economies of scale offered by GTCs that can spread its fixed costs over many transactions. These trade companies can also reduce political risks created by portfolio diversity, provide foreign exchange exposure, and have built-in mechanisms to offset exchange losses and gains, extend credit to finance both purchase and sale of goods.

Human resources: these companies hire and train highly capable employees.

Financial resources: these companies amass huge amounts of capital. They often borrow heavily and make small loans to numerous clients.

Global commercial network: these companies’ many overseas offices give them extended global reach.

Communications systems: these companies’ communications and intelligence systems rival the CIA and old KGB in their effectiveness. By internally accumulating the relevant "territorial information" concerning business opportunities, clients, distribution contacts, trading procedures and finances, they have built this communication channel to be a leading intelligence monitoring system.

Capital formation: these companies provide incentive capital from outside the manufacturing sector, particularly in support of small- and medium-sized firms.

Opportunity to barter goods and services internally: A large internal market permits these companies the opportunity to barter goods and services within themselves or sister firms.
According to this study mentioned above, the functions of SOGO SHOSHA were described more concretely. But all these kinds of functions and characteristics, and services that these trading companies provide were mixed up, complicating the issue.

Concerning the literature written in Japanese on functions of SOGO SHOSHA, the representative views may be classified into the following three categories.

Firstly, Sugino explored the function of SOGO SHOSHA mainly from a perspective that regarded this organization as commercial capital. He argued that the fundamental function of SOGO SHOSHA is their ability to mediate the circulation of commodities from producer to consumer as a type of commercial capital. The other function, finance, logistics, organization, etc. are auxiliary functions which serve only to assure that transaction will be done more smoothly. From this viewpoint, SOGO SHOSHA were dominating the marketing activities in Japan. (Sugino, 1990)

Surely, at one level, SOGO SHOSHA can indeed be regarded simply as a type of commercial capital. Since they are facilitators of commercial activity, and one of the keys to the circulation component of the Japanese production system. But some specific qualities existing in this kind of firm surely makes them different from most commercial capital firms. For example, they have become the most diversified ventures in the world, and they have considerable direct investments in various areas as will be discussed more clearly below. Thus, the bulk of commercial transactions are indeed in trade intermediation, but that is not the whole picture.

Another representative viewpoint from Shimada, who insisted that SOGO SHOSHA have a marvelously comprehensive power just by maintaining a stable long-term relationship with their demanders or suppliers, defined as “commercial rights” by him. According to Shimada, their kernel functions consist of transaction functions, finance functions, and information functions. Besides these, the roles of organizer or coordinator, converter, and resource developer, have been proposed as complementary functions. In addition, the functions of SOGO SHOSHA have been advancing constantly toward more diversity and complexity. (Shimada, 1991)

In addition, Uchida has made a different study on the functions of SOGO SHOSHA vertically and horizontally. Firstly, he has drawn out the special functions in steel, chemical and other respective industry from a vertical perspective. Then, he has analyzed their common functions in all industries from a horizontal perspective. The explanation to these common functions--finance, information, organizer and risk-taking, is
almost the same as the ones mentioned by other scholars above. (Uchida, 1991)

The Japan Foreign Trade Council, Inc. (JFTC), Japan’s trade-industry association with trading companies as its core members, have listed eight functions about SOGO SHOSHA on its homepage. They are: business promotion, research and information, market development, group development, risk management, logistics, finance, and large-scale project organization.

Overall then, the SOGO SHOSHA are intermediaries in a vast array of commercial transactions encompassing not only Japanese exports and imports but also, third-country trade and direct investment in production and services. Expressed slightly differently, they are involved at each stage of the production or commodity chain, from the purchase of raw materials through to marketing the final product and including the specialized financial and non-financial inputs. They perform the whole spectrum of services activities.

III. Data analysis

Almost all of the standard literature concerning SOGO SHOSHA make reference to SOGO SHOSHA’s function. But according to the literature reviewed above, a few studies probe the change of these functions, more especially few studies illustrate their transformation through an empirical approach. And none does so at a level of comprehensive and historical analysis.

This study draws upon relatively detailed data to show, through a historical analysis, the evolution and development of the business and function of the SOGO SHOSHA. In order to examine the transformation of SOGO SHOSHA’s operation and function at each phase under the post-war Japanese economic environment, six kinds of empirical analyses are carried out based on the results of some of early research.

1. An analysis on the amount of transaction: export and import

From the MEIJI Era (1868-1912), the predecessors of SOGO SHOSHA, were the pioneers of Japanese overseas trade who imported raw materials, technology and capital facilities and exported manufactured products. During the MEIJI period, these trading houses handled only 1 per cent of trade, but by the year 1900, it increased to 38 per cent, and more than doubled by the end of the First World War, (Shao, Alan T, Herbig, Paul, 1993). And this evolution continued after World War II.

A work by Alexander K. Young showed, that during the period of 1963-1972, the share of exports and imports of the ten GTCs’, accounted for a fairly steady proportion in Japanese total exports and imports. This
The proportion of exports on total Japanese exports varied from 47 per cent to 52 per cent, and the share of imports varied from 62 per cent to 65 per cent, (Alexander K. Young, 1974).

This seems to relate closely with the structural reforms of the Japanese industry, i.e., the advance of heavy-chemical industries. During the 1950s and early 1960s, Japanese industrial structure shifted from a light to a heavy and chemical orientated industry with rapid growth of capital-intensive basic industries. In fact these heavy-chemical industries increased their share from 52.6 per cent to 63 per cent in the year 1970, (Kojima & Hirata, 1973).

Maintaining the health of these industries required obtaining a long-term stable supply of raw materials from abroad. This rapidly increasing need for raw materials gave a golden opportunity for SOGO SHOSHA to expand their business. Since these companies were innately very good at dealing with standardized products, they were ideally suited for this kind of large-scale business.

In this period, they were primarily involved in the securing of stable long-term suppliers of raw materials such as iron ore, coal, copper and nickel from abroad. They were concentrated in high volume, low margin commodities, handling importing, exporting, and trading of over 20,000 items—including metals, machinery, energy and chemicals, textiles, foodstuffs and general merchandise.

But this pattern of steady development changed after some time. On one hand, by the early 1970s the capital-intensive heavy industries fully matured, and mass consumer markets began to grow. At the same time, as the characteristics of Japanese exports and overseas investments shifted from “low-value-added” and “standardized” products to “technology-intensive” and “high-value-added” products, marketing in the form of customer service and marketing research became important. GTCs were found to be less than satisfactory in marketing products that required intensive marketing and post sales service at the consumer level. The commodity mentality widely shared among these companies did not lend itself well to the field of durable goods in consumer marketing.

On the other hand, Japanese manufacturing firms decreased their dependence upon SOGO SHOSHA for exports and direct investments abroad as they gained foreign manufacturing management abilities, financial strength, and marketing skills. Especially since the 1980s, they began to export directly and undertake investments. Moreover, the more important the market, the sooner the manufacturers turned away from the GTCs; also the more specific and involved the marketing requirements, the quicker the manufacturers replaced the GTCs, (Daniels and Radebaugh, 1989). Some non-keiretsu companies such as Honda, Sony and Toyota have grown into successful multinationals, they have set up their own direct export-sales networks and
done their own marketing globally. As a result, SOGO SHOSHA handled a decreasing proportion of Japan's exports, which indicated the decline of their roles in the foreign trade.

As table 2 shows, during the period of ten years from the year 1985 to the year 1994, the share of exports and imports of the nine GTCs over Japanese total exports and imports went down. The proportion on total exports dropped from 45 per cent to 31 per cent, and the share of imports declined from 77 per cent to 51 per cent excluding the abnormal figure of the year 1989. These changing trends are indicated in figure 2-1 and figure 2-2.

**Table 2: Share of the nine GTCs on total (Japan) exports and imports**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports of Nine GTCs</th>
<th>Total (Japan) Exports</th>
<th>Percentage</th>
<th>Total Imports of Nine GTCs</th>
<th>Total (Japan) Imports</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>184,112</td>
<td>407,312</td>
<td>45%</td>
<td>223,704</td>
<td>290,797</td>
<td>77%</td>
</tr>
<tr>
<td>1986</td>
<td>161,629</td>
<td>345,764</td>
<td>47%</td>
<td>146,965</td>
<td>201,747</td>
<td>73%</td>
</tr>
<tr>
<td>1987</td>
<td>149,268</td>
<td>330,679</td>
<td>45%</td>
<td>172,222</td>
<td>224,663</td>
<td>77%</td>
</tr>
<tr>
<td>1988</td>
<td>146,005</td>
<td>349,309</td>
<td>42%</td>
<td>182,688</td>
<td>248,341</td>
<td>74%</td>
</tr>
<tr>
<td>1989</td>
<td>208,362</td>
<td>388,830</td>
<td>54%</td>
<td>287,361</td>
<td>304,042</td>
<td>95%</td>
</tr>
<tr>
<td>1990</td>
<td>154,121</td>
<td>418,750</td>
<td>37%</td>
<td>230,770</td>
<td>341,711</td>
<td>68%</td>
</tr>
<tr>
<td>1991</td>
<td>156,380</td>
<td>426,966</td>
<td>37%</td>
<td>200,082</td>
<td>309,704</td>
<td>65%</td>
</tr>
<tr>
<td>1992</td>
<td>153,889</td>
<td>430,529</td>
<td>36%</td>
<td>182,441</td>
<td>292,250</td>
<td>62%</td>
</tr>
<tr>
<td>1993</td>
<td>137,683</td>
<td>369,132</td>
<td>37%</td>
<td>149,267</td>
<td>264,449</td>
<td>56%</td>
</tr>
<tr>
<td>1994</td>
<td>125,490</td>
<td>407,569</td>
<td>31%</td>
<td>148,310</td>
<td>289,890</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: Asuka, 1996
Figure 2-1: share of the nine GTCs on total (Japan) exports

(In hundred million yen)

Source: Asuka, 1996

Figure 2-2: share of the nine GTCs on total (Japan) imports

(In hundred million yen)

Source: Asuka, 1996

2. An analysis on transaction methods: own account transaction and commission transaction

Though generally known as the “middleman” intermediating trade, SOGO SHOSHA has in fact two
different kinds of parts: dealers, who trade in their own right and take the risk correspondingly, and commission agents who only gain a commission by mediating transactions between buyers and sellers. In the case of deal transactions, namely, own account businesses, SOGO SHOSHA deal with trade activities independently as commercial capital. While, when they handle businesses on commission, SOGO SHOSHA are considered to act as a subordinate capital to industry capital, because they only lubricate the internal transaction on behalf of their clients, either buyers or sellers.

As commission transactions have occupied most of SOGO SHOSHA’s transactions traditionally, high-volume low-margin commission business became basically the dominant mode of operation. That is, revenues were massive, while profit margins were tiny. Gross margins of SOGO SHOSHA’s agency business are rarely more than 3 per cent, and margins in buying and selling on their own account can reach 20 per cent, (Economist, 1995). In the year 1984, the largest trading company, Mitsubishi Corp., had total sales exceeding 69 billion dollars, making it the biggest company in Japan and the third largest one in the entire world. Its profits though were only 190 million dollars, thus producing a dismal 0.274 per cent return, (Shao, Alan T, Herbig, Paul, 1993). In the year 1991, Mitsubishi Corp.’s gross profit margins 1.7 per cent were the highest, compared with an average of 1.3 per cent for the nine biggest trading companies, (Economist, 1991).

New change can be observed according to the recent financial information of SOGO SHOSHA. In the consolidated statement of income based on US GAAP of Mitsubishi Corp., revenues are divided into two classifications: revenues from trading margins and commissions on trading transaction, and revenues from trading, manufacturing and other activities. The former can be considered as commission revenues, and the later can be approximately regarded as deal revenues on own account.

As figure 3 shows, from the fiscal year 2001 to 2006, commission revenues accounted only for about 15 percent of total revenues, compared to the large 85 per cent share of revenues from own account deal. Moreover, although both parts of revenues increased along growth of total revenues, the rate of increase of the commission revenues was lower than that of deal revenues.
Table 3: change of revenues structure of Mitsubishi (2001-2006)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Trading margins</td>
<td>439,651</td>
<td>463,065</td>
<td>489,534</td>
<td>539,498</td>
<td>627,764</td>
<td>685,275</td>
</tr>
<tr>
<td>and commissions on</td>
<td></td>
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<tr>
<td>trading transaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(A) / (C)</td>
<td>0.145</td>
<td>0.147</td>
<td>0.147</td>
<td>0.155</td>
<td>0.151</td>
<td>0.142</td>
</tr>
<tr>
<td>(B) Revenues from</td>
<td>2,580,975</td>
<td>2,679,532</td>
<td>2,831,634</td>
<td>2,951,626</td>
<td>3,518,120</td>
<td>4,141,669</td>
</tr>
<tr>
<td>trading, manufacturing and other activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(B) / (C)</td>
<td>0.854</td>
<td>0.853</td>
<td>0.853</td>
<td>0.845</td>
<td>0.849</td>
<td>0.858</td>
</tr>
<tr>
<td>(C) Total revenues</td>
<td>3,020,626</td>
<td>3,142,597</td>
<td>3,321,168</td>
<td>3,491,124</td>
<td>4,145,884</td>
<td>4,826,944</td>
</tr>
</tbody>
</table>

Source: Securities Reports of Mitsubishi Corp. (2001-2006)

Figure 3: Change of revenues structure of Mitsubishi Corp. (2001-2006)

Source: Securities Reports of Mitsubishi Corp. (2001-2006)

This showed that SOGO SHOSHA have reduced their commission business. In fact, activities began to change during the 1980s from activities fees and commissions to risk equity ventures. These companies have
dropped agency business from around 80 per cent of profits in the year 1980 to 40 per cent in the middle of 1990s. (Economist, 1995) Instead, they have started buying and selling more on their own accounts and moving more directly into the underlying businesses that they used to service.

3. An analysis about the form of transactions: domestic, import, export, and third-country trade

In general, the transaction activities of SOGO SHOSHA are classified into four kinds of forms: domestic, import, export, and third-country trade. Third-country trade, sometimes called offshore trade, refers to trade which does not involve Japan either as a supplier or a market, that is, in which neither buyer nor seller is a Japanese company.

In order to explore the change of structure of trade activities, the composition of the total sales of the nine GTCs during a relatively long period is shown in figure 4. On average, the Japanese domestic market still accounted for 40-50 per cent of the nine companies’ total sales, a relatively large percentage among the four activities. During the period of 1975-1994, the share of both imports and exports tended to decline slowly on the whole. Exports declined from 23 to 12 percent, and imports dropped from 24 to 15 percent. While although third-country trade comprised less than 10 per cent between the year 1975 and the year 1979, it remained fairly stable with sustainable growth in the 1980s and 1990s. As can be seen, the proportion of third-country trade increased to 26 per cent of total sales by the year 1994.

**Figure 4**: change of composition of total sales (by form) of the nine GTCs

Source: Asuka, 1996
The major change occurred in the relative importance of third-country sales illustrated that SOGO SHOSHA have increasingly expanded this kind of trade in recent decades. Although the proportion of total business devoted to third-country trade is relatively low in comparison with more large percentage of domestic transactions, the gap between them has been decreasing.

The third-country trade represents a departure from the traditional role of SOGO SHOSHA which was to organize trade within Japan. In other words, it represents a shift of focus from domestic to truly international transaction.

4. An analysis about assets and liabilities

For SOGO SHOSHA engaged in commercial distribution, it is said that the so-called “SHOSHA financing” function is crucial. And it is this function that makes the cash-strapped companies depend on most.

By tracing the change of balance sheet item related with financing in financial statements, the change of SHOSHA financing can be observed.

A study done by Mukai overviewed the change of SHOSHA financing during the period between 1978 and 2002, (Mukai, 2003). In this study the author pointed out that by the 1980s SOGO SHOSHA have played the financing function as provider of commercial credit; while, since the early 1990s they began to shift from providing commercial credit chiefly to acting as quasi-investment bank; more especially since the year 2000, these companies have been trying to shift to equity holding corporations.

In order to illuminate on the changes of SHOSHA financing more concretely, here, the changes in asset items of Mitsubishi Corporation in the past ten years is analyzed.

Some asset items related to financial claim are listed in table 4. The trade receivable is constituted of notes receivable and loans, and accounts receivable. The aggregate of trade receivable and advance payments to suppliers can be considered as the sums of commercial credit provided by SOGO SHOSHA. As table 4 and figure 5-1, 5-2 shows, notes receivable and loans of Mitsubishi Corporation have slightly declined from 717,304 millions yen in the year 1996 to 483,150 millions yen in the year 2002. Advance payments to suppliers also decreased from 283,490 millions yen to 133,770 millions yen. While accounts receivable have an increasing tendency during this period, rising from 1,620,642 millions yen to 2,260,887 millions yen. However, the aggregate of the three parts accounted for a steady proportion of the total assets from 27 to 32 per cent. And, the proportion of long-term loans and accounts in the total assets has gone down from 11 percent to 7 percent. From these pieces of evidence, it can be inferred that at present SOGO SHOSHA still
play the role of a quasi-commercial bank, while their role as a quasi-investment bank is on the decline.

**Table 4**: change of asset items of Mitsubishi Corporation (1996-2005)

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</tr>
</thead>
<tbody>
<tr>
<td>Notes receivable and loans</td>
<td>717,304</td>
<td>682,379</td>
<td>716,267</td>
<td>583,019</td>
<td>518,950</td>
<td>544,249</td>
<td>483,150</td>
<td>514,338</td>
<td>516,147</td>
<td>534,550</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,779,769</td>
<td>1,854,945</td>
<td>1,822,506</td>
<td>1,620,642</td>
<td>1,684,893</td>
<td>1,856,176</td>
<td>1,870,365</td>
<td>1,884,041</td>
<td>1,988,181</td>
<td>2,260,887</td>
</tr>
<tr>
<td>Advance payments to suppliers</td>
<td>283,490</td>
<td>186,853</td>
<td>284,492</td>
<td>224,568</td>
<td>249,168</td>
<td>228,807</td>
<td>133,770</td>
<td>138,746</td>
<td>200,742</td>
<td>139,987</td>
</tr>
<tr>
<td>Non-current notes, loans and accounts receivable-trade</td>
<td>1,113,877</td>
<td>1,172,863</td>
<td>1,095,743</td>
<td>1,085,606</td>
<td>911,874</td>
<td>861,245</td>
<td>831,270</td>
<td>724,195</td>
<td>683,299</td>
<td>632,879</td>
</tr>
<tr>
<td>Total assets</td>
<td>9,835,500</td>
<td>9,659,955</td>
<td>9,523,369</td>
<td>8,844,185</td>
<td>8,098,194</td>
<td>8,069,387</td>
<td>8,148,902</td>
<td>8,099,500</td>
<td>8,392,833</td>
<td>9,093,372</td>
</tr>
</tbody>
</table>

Source: Securities Reports of Mitsubishi Corporation (1996-2005)

**Figure 5-1**: Change of asset items of Mitsubishi Corporation (1996-2005)
5. An analysis about the subsidiaries and affiliates

Generally SOGO SHOSHA own many small subsidiaries and affiliates, and large joint ventures. It is by investing in subsidiaries and affiliates that their businesses become diversified. Especially under the circumstances where they are being eliminated by manufactures in their core business, GTCs have gone into upstream, such as mining and manufacturing, and towards downstream such as retailing through equity investments in affiliates and joint ventures.

In table 5, the investment and advances to subsidiaries and affiliates of Mitsubishi Corporation are listed according to its financial report. On the whole, trade receivable to affiliated companies has always been larger than trade payable to affiliated companies, (Figure 6-1). Long-term investments and advances to affiliated companies increased markedly from 404,462 millions yen in the year 1996 to 835,079 millions yen in the year 2005, (Figure 6-2). From these data, it can be inferred safely that the role of SOGO SHOSHA as an equity-holding corporation has been strengthened.
**Table 5**: Investment to subsidiaries and affiliates of Mitsubishi Corporation

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<tbody>
<tr>
<td>Trade receivable to</td>
<td>308,737</td>
<td>317,852</td>
<td>334,365</td>
<td>308,087</td>
<td>296,748</td>
<td>261,462</td>
<td>253,510</td>
<td>278,090</td>
<td>218,381</td>
<td>252,252</td>
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<tr>
<td>affiliated companies</td>
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<tr>
<td>Trade payable to</td>
<td>85,723</td>
<td>89,256</td>
<td>80,701</td>
<td>61,024</td>
<td>45,437</td>
<td>50,669</td>
<td>62,145</td>
<td>70,972</td>
<td>60,441</td>
<td>124,459</td>
</tr>
<tr>
<td>affiliated companies</td>
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<td></td>
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<tr>
<td>Investments in and</td>
<td>404,462</td>
<td>407,187</td>
<td>465,786</td>
<td>453,169</td>
<td>550,719</td>
<td>652,930</td>
<td>655,084</td>
<td>720,134</td>
<td>821,529</td>
<td>835,079</td>
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<tr>
<td>Advances to affiliated</td>
<td></td>
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</tbody>
</table>

Source: Securities Reports of Mitsubishi Corporation (1996-2005)

**Figure 6-1**: trade receivable and trade payable to affiliated companies

![Figure 6-1](image-url)

Source: Securities Reports of Mitsubishi Corporation (1996-2005)
6. An analysis about the offices and employees

Each of SOGO SHOSHA has a vast and intricate geographical network of offices. At a very early stage, some of them began to handle international operations. The ZAIBATSU-related Mitsui Bussan and Mitsubishi Shoji had offices in the U.S. and Europe as well as in China and other part of Asia by the turn of twenty century. And after the Second World War, these companies were the first Japanese companies to build a geographically extensive network of international operations before Japanese manufacturing companies ventured overseas in the late 1960s and 1970s.

A research about organizational-geographical change from Peter Dicken and Yoshihiro Miyamachi touched upon the issue about the distribution of SOGO SHOSHA’s commercial networks. Two researchers explored the micro-geographical evolution of the GTCs’ offices at a global scale by tracing their global spread. Through a detailed case study in Europe primarily, they illustrated how these companies’ city-based, international networks evolved over a long period of time, from the early 1960s to the year 1996, (Peter Dicken and Yoshihiro Miyamachi, 1997). According to this research, we can conclude that there has been a substantial increase overall, and indeed no other Japanese company – and no other company in any other country – has such a geographically extensive network of operations.

The global network offices of SOGO SHOSHA are composed of domestic and overseas offices, and
subsidiaries and affiliates. Generally speaking, the overseas offices of SOGO SHOSHA consist of liaison offices or representatives, branch offices, and local independent corporations. The liaison offices only engage in information gathering, public relations and communications with customer and headquarter, they are hardly involved in trade activities. Then the branch offices and the local independent corporations are basic units that carry out the overseas business.

In order to explore the development and change of the international operation network of SOGO SHOSHA, the number of overseas offices of Mitsubishi Corporation is listed during the past thirty years. According to table 6, the number of the overseas offices of Mitsubishi Corporation has remained a stable increase overall since the 1970s to the present. More especially, the number of the local independent corporations has steadily gone up from 24 in the year 1977 to 39 in the year 2006. At present, Mitsubishi Corporation has 118 overseas offices and branches, and 39 overseas corporate subsidiaries with 77 offices (39 main offices and 38 branches) for a total of 195 offices in 80 countries.

**Table 6: Change of the number of overseas offices of Mitsubishi Corporation (1977-2006)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Offices and Branches</th>
<th>Corporation subsidiaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>65</td>
<td>24</td>
<td>89</td>
</tr>
<tr>
<td>1978</td>
<td>84</td>
<td>27</td>
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<tr>
<td>1979</td>
<td>72</td>
<td>29</td>
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<td>1980</td>
<td>81</td>
<td>27</td>
<td>108</td>
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<td>1981</td>
<td>88</td>
<td>29</td>
<td>117</td>
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<td>1982</td>
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<td>1983</td>
<td>98</td>
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<td>1984</td>
<td>109</td>
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<td>1985</td>
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<td>1986</td>
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<td>1987</td>
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<td>1988</td>
<td>107</td>
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<td>1989</td>
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<tr>
<td>1990</td>
<td>104</td>
<td>33</td>
<td>137</td>
</tr>
<tr>
<td>Year</td>
<td>Main Offices</td>
<td>Branches</td>
<td>Total</td>
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<td>------</td>
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<tr>
<td>1991</td>
<td>108</td>
<td>33</td>
<td>141</td>
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<td>1992</td>
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<td>1995</td>
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<td>1997</td>
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<td>2003</td>
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<td>2005</td>
<td>113</td>
<td>77</td>
<td>190</td>
</tr>
<tr>
<td>2006</td>
<td>118</td>
<td>77</td>
<td>195</td>
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</tbody>
</table>


Note: the number of corporate subsidiaries from the year 1977 to the year 1999 only refers to the number of main offices; the number of corporate subsidiaries since the year 2000 includes the number of main offices and branches.

IV. Reengineering of the functions of SOGO SHOSHA

According to the previous empirical findings, it can be inferred that the great changes in SOGO SHOSHA's business and operation structure have been taking place. Hence, the functions that sustain these changes beyond them need to be reengineered.

About the kernel function—Transaction or Trade function

The most essential function of SOGO SHOSHA is its trade function or transaction function, which has
An Analysis on the Reengineering of SOGO SHOSHA's Functions (Meng)

been acknowledged by almost scholars. Traditionally, Japanese manufacturers have preferred a clear separation between manufacturing and marketing, leaving the marketing function to trading companies. In addition, the advantages of the SOGO SHOSHA are the vast array of trade services provided to manufacturers at less cost than otherwise possible. This provides small- and medium-sized manufacturers with established channels to conduct international marketing operations.

In fact, from the very beginning, the reason that Japanese government placed a high priority on the development of trading companies is due to their crucial intermediate function in export and import trade. For the resource-scarce Japanese economy, it is absolutely necessary to import raw materials, and export finished products in order to accumulate enough foreign exchange.

While, with the great socioeconomic changes and changes in the structure of industry, this most central function has changed.

According to analysis 1, the share of exports and imports of SOGO SHOSHA on total Japanese exports and imports has gone down since 1980s.

According to analysis 2, commission transactions, which traditionally occupied most of SOGO SHOSHA's transactions, have continually dropped for many decades. Instead, deal transactions on own account accounted for the biggest share. In recent years, revenues from the commission only accounted for a small percentage of total revenues, and rate of increase of commission revenues was also lower than that of deal revenues. Thus, it can be inferred that the high-volume low-margin business mode of operation has began to change.

According to analysis 3, third-country trade transactions of SOGO SHOSHA have remained fairly stable with sustainable growth since the 1980s and 1990s. As previously shown, the proportion of third-country trade increased to a quarter of total sales by the middle of 1990s. Although the proportion of total business devoted to third-country trade is relatively low in comparison with the domestic transactions, the relative importance of the third-country trade has gone up.

To sum up, SOGO SHOSHA's traditional trade function, especially the function of commission transaction as middleman has weakened, while third-country trade, as one part of trade function, has been strengthened.

About the core function—financial function and investment functions

During the postwar period, SOGO SHOSHA provided trade credit to struggling companies due to
chronic shortages of capital. They eliminated a formidable barrier-to-entry to foreign trade for small and medium-sized firms which were too financially and managerially anemic to open their own overseas sales offices or to export independently.

However, although this role of financial intermediary has continued to this day, the substance of the function has changed. As the protracted era of industrial capital deficiency that followed World War II was over after the 1973 oil shock, especially in the so-called bubble economy period of the 1980s, the excessive liquidity forced changes to the concept of SOHSHA financing.

According to analysis 4 and analysis 5, by the 1980s SOGO SHOSHA have chiefly played the role of quasi-merchant bank by providing commercial credit. It may be said that their attempt to be merchant banks was tricky, since SOGO SHOSHA are highly geared because of their role in financing customers' trade flows, which makes them especially sensitive to interest rates.

Considering the role played by SOGO SHOSHA and financial institutions in the financing of business ventures, SOGO SHOSHA deal not only with the flow of money, but are also directly involved in the flow of goods and services of their partner and client companies. This makes it possible for them to judge and evaluate product competitiveness, managerial competence and business potential from a perspective that is different from that of financial institutions. This is an indispensable aspect of the concept of SHOSHA financing. In this way, SOGO SHOSHA using their own judgment and at their own risk, have made capital available for companies to which banks have been reluctant to lend, serving as an impetus for economic activity.

Similarly according to analysis 4, since the early 1990s SOGO SHOSHA began a shift from being pure providers of commercial credit to acting as quasi-investment bank. These companies offered advance, short-term and long-term loan to their clients as well as provided commercial credit in domestic and overseas transactions. At this time, to meet the growing need for long-term funding, they used a combination of proprietary capital and reserve funds; but also relied heavily on external capital in the form of loans from financial institutions and corporate and other types of bonds.

Moreover, SOGO SHOSHA have themselves become aggressive about directly and indirectly developing business investment. They have also participated in direct investments abroad. Many Japanese direct foreign investments are characterized as having been trade and resource oriented, mostly earmarked for developing countries, and with some participation of SOGO SHOSHA, (Masaaki Kotable, 1984). In total, the GTCs are changing from pure traders to become more financially sophisticated investment-holding
companies and venture-capital investors.

Finally, according to analysis 5, since the middle of the 1990s, especially since the 2000s, SOGO SHOSHA's role as quasi-investment bank is on the decline, and they have been trying to shift to equity-holding corporations. For example, Mitsubishi Corp. has been described as “part operating company, part holding company and part investment trust”. It is seldom a purely passive investor. Its practice is mainly to invest in the securities of companies with which it has some business relationship. In return Mitsubishi Corp. receives dividend income and some related business. In the year 1991, equity-accounted affiliates contributed 20.6 billion yen, 32 per cent of Mitsubishi’s consolidated net profits of 65.3 billion yen. And, that proportion is rising, (Economist, 1991).

As an example of SOGO SHOSHA investing in upstream industry, Mitsubishi Corp. invested in businesses related to liquefied natural gas (LNG) projects. Its LNG plant in Brunei provides 18.3 billion yen, a third of the company's net profits in the year 1994, (Economist, 1995). As an example on a much smaller scale of downstream investment, in the year 1990 Mitsubishi gained a 48 per cent stake in Kentucky Fried Chicken Japan, a joint venture set up in the year 1970 that now has more than 900 outlets, and the company was floated on Tokyo's stock market at a fat profit, (Economist, 1991).

**About the core function—information function**

According to analysis 6, each of the GTCs has a vast geographical network of offices constituted into branch offices, subsidiaries and affiliates. It is these domestic and overseas bases that make these companies have a strong information function. The purpose of establishing these bases at a significant cost is not simply to provide an infrastructure to control market reach abroad. Rather, the point is to establish a global communication network to gain the extensive intelligence and information.

A vigorous information-generating activity continuously takes place both domestically and internationally. SOGO SHOSHA supply up-to-date information to clients about global markets. They give domestic manufacturer customers information necessary for inventory control, production planning and capital investment, market demand, product trends and price movements. Also they supply information to potential exporters concerning distribution channels, credit of potential distributors, risk data, foreign regulations and barriers, and export permits. Moreover, in addition to providing economic and business information they also convey political, demographic and socio-cultural data.

While, with the rapid advancement of information technology, it would appear that GTCs’ value as
collectors and transmitters of information is decreasing. However, it goes without saying that information is not limited to the information available through media such as newspapers, television and magazines. In business, the “general information” indiscriminately provided to the public is, of course, important, however, even more important is what is commonly known as “specific information”. Specific information refers to individual units of information generated in the process of human interaction. It is this type of information that constructs a kind of unique managerial resource and competitive advantage for SOGO SHOSHA.

The specific information offered by the GTCs is not simply transmitted from one individual to another individual. Rather, a relationship based on trust is established through extensive contact and information is generated, either as a process in the course of mutual exchange, or as the result of the exchange itself. Experientially speaking, this can be likened to the “SHOSHA-men’s” (trading company employees) efforts to expand their horizons and create a personal network of contacts. In this process the SHOSHA-men engage in an exchange of information and views based on mutual trust, friendship and goodwill, which leads to the acquisition of valuable specific information. By establishing intimate contacts with influential individuals, important companies, high-ranking government officials, and national and local leaders they conduct rewarding informational activities that can trigger new exchanges and business opportunities.

About the function as project organizer or developer

Under the circumstances that their core business was under threat, the large trading companies began, by the middle of the 1970s, to shift their emphasis from small-scale ventures to large-scale industrial projects involving petroleum, petrochemicals, and aluminum refining, as so-called “system-organizers”. They engaged in various fields as organizers or developers, such as regional development, resource development, public nuisance prevention, plant exports and so on.

According to the analyses done above, SOGO SHOSHA do have an enormous skill in organizing and implementing large-scale projects. By making good use of their advantages of providing the vast array of trade services at less cost, they can increase participation in product areas requiring sophisticated distribution. By their ability to accept other commodities in lieu of hard currency as quasi-commercial bankers, barter and counter purchase opportunities are made possible. By acting as quasi-investment bankers, they can finance a project, and secure against the projected output of plant. By acting as information-providers, they can intermediate high-risk overseas mega projects and package deals to foreign governments for one-stop shopping. By worldwide extensive intelligence and commercial networks, they are suitable to facilitate trade
flows internationally.

To sum up, as the hypothesis assumed, the functions once identified with SOGO SHOSHA do have changed in response to changing business structure. In concrete, the traditional trade function, especially the function of commission transaction as middleman has weakened; the financing function as providers of commercial credit and by acting as a quasi-investment bank since the past ten years has also weakened; the function as an equity-holding corporation and as a project organizer or developer has been strengthened; finally, the function of commercial relationships and networks based on extensive intelligence and information was newly created.

V. Summary and perspective

No other country has similar organizations with so many functions, with such geographical range and with such phenomenal access to information, (Economist, 1991).

In the West, the functions of special traders, exporters, importers, agents, and distributor specialized in domestic distribution are generally classified and divided. There is hardly a firm engaged in as many activities as SOGO SHOSHA, although many countries have tried their best to develop similar firms. For example, the USA Congress passed The Export Trading Company Act of 1982 to facilitate the formation of export intermediaries and to promote export trade. This Act expected to stimulate U.S. companies into developing trading companies by relieving some of the restrictions placed on U.S. companies by the antitrust laws. But the evolvement of successful trading companies has been very slow to materialize.

A characteristic feature of the Japanese economic system has been the absence of SHOSHA-specific regulations, even though industry-specific regulations have limited participation in the activities of these regulated industries. Therefore, while specific products and services have been regulated, the essence of SOGO SHOSHA activities has never been subject to unified control under the law. As a consequence, the activities of SOGO SHOSHA have become extremely diverse.

In this course of constantly pursuing diversity, they have been under the pressure eliminated by their customers and suppliers, because they neither produce nor consume goods. As a result, in order to strengthen their positions, SOGO SHOSHA must always search for new business opportunities and enter into new business fields. That is, they must search for differential advantages. Especially, with their old role as commodity traders shrinking, these companies have little choice but to try new courses. And surely, the
growth of the SOGO SHOSHA has been largely due to their willingness to expand into other areas.

But, the process of creating new business opportunities is not easy. For non-manufacturer and non-consumer SOGO SHOSHA, it is very difficult to create new business opportunities in upstream and downstream industries. They do not have the enough capabilities, time and psychological reserves necessary to anticipate client and market needs in order to create new business. For example, they did not gain the success they expected in the retail industry and telecommunication industries except in a minority of cases, even though there were some successful cases as mentioned above.

Moreover, rashly "haphazard" diversification may contain irretrievable risks. Hence, contributing to this notion is the fact that SOGO SHOSHA must focus their energies on existing operations. In fact, after two oil crises, these companies decided to shift their emphasis from rapid growth of sales volume to efficient management.

In essence, they should only try to enter into those areas advantageous to them, that is, into those fields where their central and essential functions can be fully made use. Thus, a new business model based on the reengineering of the functions needs to be explored.

Surely, SOGO SHOSHA are moving from being traders to operators, or, moving away from providing product exchange and business investment. But, what future industries SOGO SHOSHA should advance to, and in what way they should be utilized, should be determined by their essential functions, what’s more, it should be determined by their business model depending on their essential functions. Future studies about new business model should be expected.

Endnote

1 SOGO SHOSHA is the GTCs’ Japanese original name, and the term in Japanese is both a singular and plural noun.
2 The nine GTCs refer to Mitsubishi, Mitsui, Sumitomo, Marubeni, Itochu, Nissho Iwai, Kanematsu, Tomen and Nichimen.
3 All of the GTCs here refer to Mitsubishi, Mitsui, Sumitomo, Marubeni, Itochu, Nissho Iwai, Kanematsu, Tomen, Nichimen and Ataka Sanyo.
5 See note 2
6 Since the year 1990, the sales from gold metal dealing on gold savings account has been excluded from the total sales; and since the year 1995 the sales from noble metal dealing has been excluded.
7 See note 3
An Analysis on the Reengineering of SOGO SHOSHA's Functions (Meng)

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