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CONTENTS

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CRITICAL STUDIES IN ACCOUNTING DATA AS A GUIDE TO CORPORATION ANALYSIS

—MONOLOGUE OF A SOMNILOQUIST—

By Hidekazu NOMURA*

I Modern Business Analysis

1. Aims of Modern Business Analysis and its Limitations

A number of work concerning modern business analysis have one feature in common, in that they depend solely on the analysis of corporations' closing reports (financial statements) consisting of balance sheet and profit and loss statement. Usually, such analysis are developed primarily from certain standardized (or systematized, according to recent jargon) ratios between specific figures shown in the financal statements, and the results of analysis are evaluated in terms of the purpose of such analysis which applies to the specific subject of the analysis.

In the modern business analysis, the subject and the purpose of analysis are classified into the following categories:

—Firstly, those used by management for the purpose of business administration and measurement of efficiency in operational performance.

—Secondly, those applied by banks and other financial institutions in order to evaluate credit of borrowing corporations, and particularly such corporations capability to meet their financial obligations. Historically, this was the starting point of business analysis.

—Thirdly, analysis done on the investors' standpoint to evaluate corporations' profitability and worth to the investors, including their outlook in future.

—Lastly, those utilized by governmental agencies, research organizations and others in order to know the trend of economy and industry.

Those analyses, regardless of their objective, are characterized by the fact that they "evaluate and determine the ranking" based on the figures contained in the financial statements published by the corporations. Such evaluation and ranking cause the management to "discover" the goals and targets for improvement of their corporations. For financial institutions and investors, those measurement provides their criteria of establishing credit or investment decisions. From the corporations' standpoint, those act as denominator of concentration of

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capital that would occur in the course of competition among the capitals. Consequently, business analysis is a double-edged sword; it provides criteria within each corporation while on the other hand it determines the corporation's creditability and worth for investors. Contradictions do occur between the viewpoint of financial institutions and investors in one hand and of corporations on the other regarding "analysis" of published financial statements, correlating with their financial strategy.

The fact that the modern business analysis is often misleading comes from the attitude to regard it as a mirror of corporation, ignoring the complex interrelationship as described in the preceding sentenses. As certain corporations condemned as "risky" continue their steady growth while those qualified to be likely to continue sound expansion go insolvent on the other hand, it is quite under-standable that validity of the modern business analysis has come to be questioned, albeit empirically, by those who are engaged in business. Reflecting such a situation, "as public interest in business analysis increases, the number of people who are disappointed by the books on the subject, or who strongly doubt its practical validity, also increases"[1]. Nevertheless, there exists little doubt that the results of modern business analysis play a key role as a means to deprive corporations of their financial credit in the course of actual business.

An even more remarkable fact is the attempt to utilize the modern business analysis deliberately for the purpose of labor management. This aspect is only a part of business analysis in the modern system of management theory. However, its real importance is extremely emphasized. We can see an example of this importance in one of the pamphlets published by the Japanese Employers' Confederation in 1967, titled "Management High-Competency and Wage Policy—Business Analysis for Collective Bargaining".

The pamphlet develops its theory in the following way in order to justify wage system based on corporation's financial resources. First, workers must be made to understand various accounting figures so that the management and the labor can consult, based on these figures, as to how to work out wage system based on the principle of productivity. Thus, the labor is obliged to confront the management on the latter's ring from the very beginning. On the other hand, it emphasize the keen need to "recognize problem area" on the part of the management and stresses the importance of management initiatives on the ground of accounting figures. It advocates the desirability of introducing some practical system to determine wages in terms of performance yardsticks of corporation which is "arming a devil with an iron bar", and concludes that "good analysis is not valuable unless daily, long-range efforts are made to convince employees and workers of the validity of such analysis", saying that such ef-

1) *Business Management of 1965–1975*, the Mitsubishi Institute of Economics (Introduction to Business Analysis) 1968, pp. 169.

forts, if not helpful to management from the first onset in the course of bargaining, will prove to be very meaningful in the long run. This amounts to an open statement of creed on the part of capital with regard to the objectives of business analysis.

While the above observation sums up the real purpose of the modern business management, capitalists fully recognize its inherent limitations, in that they know the analysis is often misleading and try to account for the problem. Those who are actually involved in the analysis particularly appear to be eager to resolve it. Then, how do the advocate of modern business analysis assess its own limitations?

Generally, they consider that analysis of financial statements is not sufficient and attach a considerable importance to other types of information. Character and capability of management personnel have traditionally been one of such essential information. In the recent years, attention is also paid to various conditions surrounding business, such as state of industry, economy in general, and non-economic factors.

This does not prevent, however, that one always returus to financial statements as the last recourse. Recognition of the limitation of technical and phenomenological analysis of financial statements and the approach to resolve this problem are then outlined as follows.

Above all, it is pointed out the object of analysis—financial statements, particularly balance sheet as at the closing day—cannot represent normal financial conditions (in other words, average structures of property) of an enterprise, however exact the figures could be. As it is, analysis of various ratios that are based on exceptional balance sheets cannot show the actual state of business. This gives way to an ironic idea that figures in the balance sheet should be the average figures between those at the beginning and the end of the period.

Next, it is a common sense to consider financial statements are understandably "dressed up" in accordance with closing policy, and this dressing is a problem. However, it is also generally considered that if accounting is done in compliance with the conventional accounting system, the results could be viewed as true, particularly as audit report by certified public accountants could disclose any discrepancy. Notwithstanding, as long as the current accounting rules give a large margin of area in which "flexible dispositions" are justified, the problem remains as legal window-dressing.

Finally, published financial statements have been prepared in accordance with the established accounting system. The Commercial Law, Regulation Concerning Financial Statement and the Corporation Tax Law constitute the major framework of accounting rules, but these three are designed to satisfy different legislative needs and while consistent from an overall point of view, there exist a considerable number of differences in specific ways in which accounting is to be made. This causes in turn differences in financial presentation for a same objective fact of economic process. The modern business analysis argues that such discrepancies must somehow be reconciled.

Then, if all of thosc problems were resolved, would the business analysis be capable of giving a true and exact state of any enterprise? The answer will still be negative. We must elucidate theoretically those limitations of the attempts to resolve the problems of business analysis in order to set the first step to establish a scientific methodology of analysis.

2. Theoretical Ground of Critical Studies

A. Analysis of Big Business at Crises

As the capitalism enters the stage of monopoly, control by monopolistic capital is excreised through big business rather than through enterprises in general. Consequently, a very few numbers of big business dominate the most part of specific industry first in production, then output, price and even investment amount, all of which could be freely influenced by such big business.

For instance, total number of Japanese enterprises capitalized over one billion yen is 1,099 in 1969, or 0.13% of all corporations in Japan. Those enterprises, however, occupy 60.5% of total capital, 53% of tangible fixed assets (including construction in process account), 68.5% of investment, 33.9% of sales, and 19.0% of employees[2].

From the standpoint of working people, the stage of monopoly can be considered as the period of development and enhancement of class struggle and anti-monopoly movement on worldwide scale, along with the struggle for racial independence. The movement has founded the first socialist state in the history, and it is now going to establish socialist system on a much larger scale. It forces the financial oligarchy to make certain concessions. On the other hand, however, we cannot overlook the very astute deployment of the partnership between the U.S. monopolistic capital controlling the world of capitalism in one hand, and the Japanese monopoly which entertains subordinate relationship with the former, forming a close coalescence with the state to promote undemocratic policies against the people.

Reaction of monopolistic system to wards an overall crisis not only consists in skillful management policy of big business alone. It mobilizes all the power and influence of capital, beyond the national boundaries, to seek the control of politics, economy, culture, society and military powers on an international scale.

Corporation analysis in such a sense must be understood as the analysis of monopoly through various corporations. Without such perspective, any methodology of business analysis becomes an abstruct theory without historical

2) *Concentration of Japanese Business*, Secretariat of the Fair Trade Commission, 1971, pp. 93.

validity. The most important of scientific criticism to the modern business analysis is that it is a mere technical methodology that lacks this historical determinant. We shall develop the notion of concrete and historical determinant of the stage of monopoly in the following methodology.

B. Recognition of the Methodological Difference between Enterprises and Individual Capital

Whenever critical accounting study tries to approach the meaning of accounting figures of enterprises at the stage of monopoly, certain parts of the "Imperialism, the Highest stage of Capitalism" of Lenin are quoted frequently. Those quotations, however, are generally limited to the following passages:

"The balance-sheets of many joint-stock companies put us in mind of the palimpsests of the Middle Ages from which the visible inscriptions had first to be erased in order to discover beneath it another inscription giving the real meaning of the document". (pp. 229, Vol. 22 of Collected Works of V. I. Lenin, ibidem) "None of the rules of control, the publication of balance-sheets, the drawing up of balance-sheets according to a definite form, the public auditing of accounts, etc., the things about which well-intentioned professors and officials—that is, those imbued with the good intention of defending and prettyfying capitalism—discourse to the public, are of any avail;..." (ibid., pp. 230)

Lenin, however, wrote also in the same context and in the same part as follows: "But the "holding system" not only serves enormously to increase the power of the monopolists; it also enables them to resort with impunity to all sorts of shady and dirty tricks to cheat the public, because formally the directors of the "mother company" are not legally responsible for the "daughter company", which is supposed to be "independent", and through the medium of which they can "pull off" anything". (ibid., pp. 228~229) He further quotes from L. Eschwege that "The simplest and, therefore, most common procedure for making balance-sheets indecipherable is to divide a single business into several parts by setting up 'daughter companies'—or by annexing them. The advantages of this system for various purposes—legal and illegal—are so evident that big companies which do not employ it are quite the exception". (ibid., pp. 229~230)

As a background, he goes on to say "The extraordinary high rate of profit obtained from the issue of bonds, which is one of the principal functions of finance capital, plays a very important part in the development and consolidation of the financial oligarchy" (ibid., pp. 234), and attaches a special importance to issue of securities and control and exploitation by the finance capital of the security market. Although production of commodities may appear to be still dominant, "Translated into ordinary human language this means that the development of capitalism has arrived at a stage when, although commodity production still "reigns" and continues to be regarded as the basis of economic life, it has in reality been undermined and the bulk of the profits go to the "geniuses" of financial manipulation". (ibid., pp. 206~207) Thus he points out very clearly one of the major characteristics of the monopolistic economy.

Furthermore, "During periods of industrial boom, the profits of finance capital are immense, but during periods of depression, small and unsound businesses go out of existence, and the big banks acquire "holdings" in them by buying them up for a mere song, or participate in profitable schemes for their "reconstruction" and "reorganization"." (ibid., pp. 234~235) Therefore, the finance capital even takes the opportunity of business slump to make profit and extend its control by "reconstruction" and "reorganization", let alone the period of prosperity.

Lenin explains further the exploitation and control by finance capital as follows: "It is characteristic of capitalism in general that the ownership of capital is separated from the appilcation of capital to production, that money capital is separated from industrial or productive capital, and that the rentier who lives entirely on income obtained from money capital, is separated from the entrepreneur and from all who are directly concerned in the management of capital. Imperialism, or the domination of finance capital, is that highest stage of capitalism in which this separation reaches vast proportions". (ibid. pp. 238) And "The extent to which this process is going on may be judged from the statistics on emissions, i.e., the issue of all kinds of securities". (ibid., pp. 239)

It follows that the importance of the security market (emissions and circulation) and the meaning of published accounting figures in the market should be reviewed carefully on the basis of the preceding remarks of Lenin. The concept, system and unit of enterprises will be the threads that connect those two factors.

Conventional theory of critical accounting regards an enterprise (corporation) as an individual capital and tries to understand movement of such capital on the basis of published financial statements. As it is, assets on the balance sheets are conceptually classified into money capital (cash, deposit etc.), productive capital (raw materials, tangible fixed assets, etc.) and commodity capital (finished products, merchandises etc.). In other words, the theory presupposes an enterprise essentially as a unit of capital circulation, i.e. an individual capital.

This is an over-simplification, however, and fails to grasp the reality completely. Financial statements are not made on the unit of individual capital. They are prepared for the unit of an enterprise as a corporation. In this instance, an enterprise is nothing more than a formal and legal unit for which accounting results are published. For example, Mitsubishi Heavy Industries Ltd. merged three Mitsubishi campanies in tha same field in 1964, while later in 1970 it separated its automobile division as an independent (legally) company, For the Mitsubishi Konzern, these legal as well as accounting measures firstly to combine the three main companies into one and then to separate the automobile division from it later were necessary to the accumulation of Mitsubishi's monopoly capital.

In addition to absorption or division of businesses, there exist a number of effective means for monopoly to increase accumulated capital and control by utilizing fully the artificial unit of an enterprise as a legal and formal entity, its system and concepts: they include, to begin with, combination and division of business, establishment of a corporation, listing of stock in the security market, closing of books at a loss, manipulative bankruptcy, reorganization, tax calculation, pricing policy etc. which have a significant influence over the capital and financial credit market, as well as establishment of separate company for the purpose of labor administration and securing, relocation and transfer of profit and sacrifices of subsidiaries and subcontractors. As explained previously, these aspects were pointed out by Eschwege well back in 1914.

And now, the latest of such discoveries is beginning to be used accross the frontiers all over the world: multinational enterprises (in the form of their local companies) controlled by the international finance capital. It is impossible to under-estimate the implication of this new form of capital export and means of international control which takes the maximum advantage of local legislation and custom (which is called by the exporters of capital "respect" for local legistation etc.).

From the preceding considerations, it will be appropriate to define a corporation as an artificial unit of division of individual capital drawing benefit from the legal protection of limited liability. This unit, operating on the principle of published accounting data, is also a unit on which dividend rate is determined, taxes are assessed (tax reliefs), subsidies are granted, profit is planned, and responsible accounting is administered. Moreover, this system is institutionalized by the law and defended by accounting theory.

We must therefore understand the reality of concentration and accumulation of individual capital which are accomplished by utilizing accounting data which in turn are supported by the concept, system and unit of corporations. This process is the culminating point of private ownership in the stage of monopoly with the socialized means of production. In such a sense, to identify corporations as individual capitals would amount to an over-simplification, causing corporation analysis at the stage of monopoly get confused, misleading comprehensive and scientific understanding of the reality, with a result to destroy even the chance of obtaining correct recognition of the corporation itself.

C. Corporation Analysis as a Means of Assessment

In this article, we have been using the term "corporation analysis" intentionaly as opposed to the term "business analysis". It will be appropriate to explain the meaning of those terms here briefly.

"The term 'corporation' is used, as with the term 'business' to express a variety of different concepts. In practice, however, the former means a basic unit, i.e. an organ of production and circulation of goods under a specific productive relationship...while the word business (management) (although used for various matters, is commonly employed) to mean a process of labor, after abstraction of the productive relationship"[3].

Although this definition may contain too much room for flexible interpretations, it will be said, in essence, that the perspective of business analysis places the emphasis on analysis of production capacity including technological structures and organizational structures, whereas that of corporation analysis aims at understanding the object of business analysis further from the standpoint of productive relations in terms of possession and control.

Because the business analysis is biassed in favor of production capacity, it tends to identify a corporation as a capital, i.e., a unity of production capacity, and financial statements as numerical representation of that unity. Hence this perspective is confined to the analysis of financial statements with-out considering non-financial data other than complementary or secondary recourse. In contrast, the perspective of corporation analysis is a means to overcome this limitation and ennables analysis to free itself from the yoke of financial data. Thus, the latter approach alone can succeed, as will be discussed later, to grasp exactly any corporation to be analyzed within the movement of individual monopoly bodies while making scientific use of such corporation's financial statements effectively.

Yet, financial statements are the most comprehensive of all types of information to be published on the matter of corporations' activities. If these is no other type of published data available, they are the only sets of information one could use. Even if certain classified information were made available by chance, it would be impossible for critical researchers to use it openly as materials for analysis. Such handicaps could be overcome once the labor movement, "local inhabitants' movement" and "consumer's power" as well as local municipalities become powerful enough to exert a certain level of control over the monopoly, at least to a certain extent. Pending this, published financial statements will continue to be the most important data, and this fact implies the urgent need to know their limitations and to find the best way to make scientific use of them.

As will be seen from the foregoing points, our corporation analysis does not aim at analysis of individual corporations alone. One of our theoretical

3) *Dictionary of Business Economics*, 1966, pp. 13.

standpoint consists of the historical determinant called the stage of monopoly. In this stage, big business plays an omnipotent role. Therefore, it is apparent that even to analyse an "outsider company", it is essential to take into consideration the extent of domination of that particular industry by big business. In the same context, analysis of medium to small industries acting as subcontractors to their parent companies and big bubsiness, cannot be made without knowing exactly the relationship that exists around the big business.

With regard to the last point of our discussion, it cannot be denied that conventional business analysis, at least from an objective point of view, has the character of corporation-oriented discipline. This weakpoint comes mainly from the limitations in their analytical method. Although it may claim to intend overcoming such a tendency, it heavy dependency on financial statements eventually oblige them to be the victim. A typical case is that of comparison of profit ratios, the most common of such analyses.

The perspective of corparation analysis, in other words, expects to overcome this methodological weakpoint by giving to the analysis its due part in the total analysis of reality. Without such a comprehensive perspective, corporation analysis could never be a science. It is equally apparent that reality could never be analysed correctly without corporation analysis at this stage of monopoly.

Since corporation analysis is but an essential part of the total perspective, it connot be a substitute for the analysis of reality. Importance of the corporation analysis arises because it can give a concrete form to a specific side of the reality when the latter is to be understood in the broader perspective. In this sense, in corporation analysis, it can be said that selection of the object of analysis...a particular corporation...conditions from the very beginning results to be obtained from such analysis. It is, above all, the problematic consciousness that determines the result.

3. Limitations of Capitalistic Accounting and its Fictitiousness

A. "Leasing" as a Means of Capital Credit and its Accounting

Reflecting the contradiction which exists between the social character of production and private character ownership, capitalistic book keeping has a number of limitations. Inasmuch the books have to show properties owned by a company in question, it fails to show any "leased properties", i.e. loans of tangible fixed assets. This is so because it does not involve any transfer of ownership, although in many instances it is a major part of the company's means of production, essential to the capital. The concept of capitalistic ownership requires accounting to be maintained on commercial credits (accounts receivable, accounts payable) and finance (credits and liabilities), while it excludes leasing from any account. Consequently, a leased capital equipment, even if it is actually operated and generating profit with in a company, is not shown on the balance sheet, except for the rentals that may accrue.

So-called "lease industry", which is a new mode of competition for monopoly capital, draws its advantage precisely from the abovementioned feature of capitalistic accounting.

"From the traditional leasing of real estates, 'lease' has developed into 'equipment lease', of all types of industrial machinery, business machines, and other movable assets which are needed for production, fabrication, packing, transportation and business administration. This unique function of modern lease has gained wide and distinct recognition as a means of accommodating facilities"[4].

The advantage of equipment lease exists in the fact that it is not necessary to keep it neither on debit side or credit side of the book. Hence it will not deteriorate the stability ratio of a company while in fact it has all the benefit of finance. It can realize "de facto" acceleration of depreciation and allows the company to avoid over-investment in capital equipment. Without taking these effects of equipment lease into consideration, evaluation of profit ratio of such a company would be nothing but grossly misleading.

Importance of the so-called "finance lease" increased tremendously following the Korean War, and in 1963, 'Nippon Lease Co., Ltd.' was established as the first company of equipment lease in Japan. By now, each Konzern, eager to take full advantage of the benefit, has created its own affiliate of equipment lease. These industries play the role of financial institution. It would be noted, however, that this concept is not new at all. In this country, there are a number of companies whose production and other facilities, as well as administrative personnel and services, are provided by their parent companies.

B. Adaptive rate of Matching Revenues with Expenses and Fund Accounting

A company's profit is obtained for a given period of accounting. One of the major purposes of accounting has been to determine company's profit and loss for a period, as is seen from the dynamic theory, a dominant school of modern accounting. However, various concepts of profit obtained by profit/loss statement are not omnipotent. A typical example is bankruptcy with profit. Although income statement shows existence of profit, meaning certain efficiency of capital turnover, a company can still go insolvent. The dynamic theory fails to account for such a bizzare phenomenon. In order to complement such a limitation of the theory, a new concept of "fund theory" has been introduced. The theory advocates the need for cash planning, along with evaluation of corporation's efficiency based on profit, in order to establish the relationship between monetary factors and the factors in kinds, and also to maintain con-

4) *Leasing Business* by Yoshihiko Miyauchi, 1970, Nikkei Bunko, pp. 12.

tinuity of circulation of those two factors.

The cash planning is based upon a concept, seldom used in practice, called "the adaptive rate of Matching Revenues with Expenses[5], indicated in the following formula :

$$\text{Expense-to-Revenue Ratio} = \frac{\text{Expenses of Current Term}}{\text{Revenue of Previous Term}}$$

The theory maintains that outlay-to-receipt ratio must be examined on the assumption that Revenue of previous term constitutes receipt of the current term, and that current expenses constitute current outlay. This concept is characterized by the fact that it watches constantly if a company's output and recovery of credits are keeping a certain balance with outlay from a view-point of long-range continuity of that particular company.

Such a fund theory discloses a limitation of the dominant accounting theory in that it indicates the possibility that a company's book profit does not necessarily mean availability of monetary means of disposable income, and that such profit is a mere balance in accounts. However, the cash planning does not reflect necessarily movement of capital. For instance, a company going to be bankrupt with profit can still survive by emergency financing. In many cases monopoly capital can mobilize its financial institutions to assist it.

The fact that a number of main companies of big konzern have poor stability ratio is a necessary consequence of another fact that their cash planning in reality is carried out on a broader basis, extending beyond those companies. The fund theory, however, requires cash plans to be made on the basis of individual companies, as is seen from the Expense-to-Revenue ratio. Accordingly, the concept of funds does not integrate individual capital nor circulation unit of capital and it only formalizes the fictitiousness of accounting that is based on individual companies. On the other hand, it is equally certain that this limitation does not prevent those concepts and analyses to be used effectively as yardsticks of control for the sake of "rationalization" and "planning".

C. Control by Break-Even Point

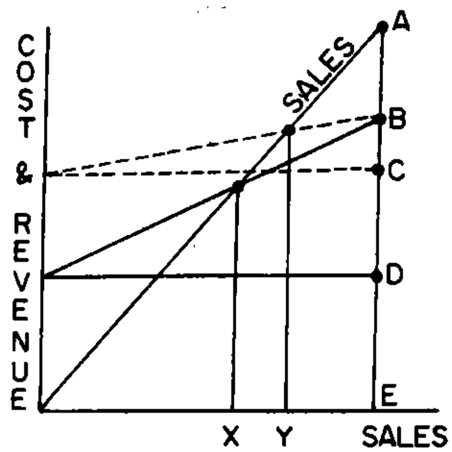
Another good example of fictitiousness of accounting as it is used as published efficiency of a company is the concept of break-even point. It is an excellent tool to falsify the published efficiency in that manipulation of accounting figures—in this case, only conceptual classification of expenses—can drastically and flexibly give different results, even though the economic reality of a company remains unchanged.

In corporation analysis, break-even chart is drawn based on published

5) *Profit Planning as a Tool of Management Policy*, Recommendation of Industrial Rationalization Council, Ministry of International Trade and Industry, 1956.

profit and loss statement. As seen from the figure, both

AE=shipment,
BE=Total expense



are determined once for all and remain unchangeable. Break-even point, however, is obtained by classifying the total expense (costs) into fixed and variable costs. Here is precisely the problem, because a question arises as to at what point on BE the total costs should be broken down into fixed and variable costs, and any classification is artificial in a sense. For instance, it is generally (and intentinonally) claimed that Japanese wages should be regarded as fixed costs inasmuch as they are based on seniority system. (The statistics of Bank of Japan treat 50% of wage as fixed cost, whereas those of the Japanese Employers' Confederation considers 65% to be a fixed cost.) If each cost is subjected to wishful classification, the proportion between variable cost and fixed cost could be changed at will, within the total cost which remains unchanged.

With reference to the above figure, if fixed cost is changed from DE to CE, thereby increasing its proportion in the total cost, the break-even point raises from X to Y. Even if the reality is the same and so are the published profit and loss statement, which should be the accounting representation of the reality, the break-even point could be pushed up by artificially altering interpretation of "fixed cost". It would be needless to say that such data provide an excellent means of persuasion to seek workers' cooperation for "rationalization" and reduction of fixed costs, functional wage system, increased efforts for production and sale and other attempts of capitalists to prevail on the workers.

4. Models of Ratio-Analysis

Analysis of financial statements are some-times made on actual figures, but more often, indices over several periods of time are compared, or each item is compared with others and the ratio thus obtained is studied. Particulary, analyses done on the basis of ratios between accounts are considered to be important. We shall examine some typical ratios and their justification in the following discussion.

A. Stability Ratio and Liquidity Ratio

Stability check is also called "analysis of financial soundness" or "solvency analysis". It is used to represent a company's shortterm liquidity and longterm finance stability. An example of such attempt is the liquidity ratio, which is shown as:

$$\frac{\text{Current assets}}{\text{Current Liabilities}}$$ [6]

Historically speaking, the liquidity ratio was the yardstick to measure a company's financial liquidity and soundness from the standpoint of creditors, or financial institutions. As such, it was the starting point of business analysis. The liquidity ratio is considered adequate if it is over 200%, and the analysis is complemented by "quick" ratio.

If however, increase of liquidity ratio, i.e., that of current assets, is caused by an increase of cash and deposits at hand, then even the modern theory would call it a deterioration of operational efficiency. Some people go even further to say that the cash and deposits at hand should be maintained at the necessary minimum on the average from the management view point. Such a criterion, if applied to Japanese big business, would condemn the majority of corporations as financially unsound (in the latter half of 1969, the average liquidity ratio of all corporations listed at 1st Section of Tokyo Stock Exchange was 107.3%).

However unsatisfactory the ratio might be, it does not present any problem so long as financial credits are readily available in time of need. From a theoretical viewpoint, the ratio of 200% would be considered a reasonable assurance for a company to continue successful financing by itself, as an individual capital. However, as we have already seen, corporations are actually a member of a group of enterprises (individual capital) within a monopoly body. Consequently, in order to determine the stability (of a given member), in the perspective of continuity of capital turnover, the methodology would make it necessary to intercept the whole group of enterprises which have connections with the circulation of capital of the monopoly body in question. If such enterprises are individually evaluated on their respective accounting data, the resulting measures of stability will be nothing but fictive.

6) For detailed analysis of other performance ratios, refer to the author's "Critical Studies of Corporation Analysis and Methodology", the *Keizai Ronsô*, July 1971, pp. 31-37.

Moreover, it might be possible that a big business sits comfortably at the sacrifice of small shareholders, outsider companies or subcontractors. It may anticipate a big loss in future. In such cases, it would be a mistake to assume that financial assistance is readily available from the konzern even if the company in question is a member of the monopoly body.

What is important is to understand the totality of those relations exactly, and to know how a company's liquidity is presented to the employees, since the management might use it as an effective means of persuasion to strengthen administrative control, on the pretention that improvement of liquidity ratio must be achieved by, for instance, increasing turnover. Whether sales department is assigned to a company or carried out by an internal organization —a division for instance—is one of the key considerations to analyse the liquidity ratio.

B. Profit Ratio and Profitability of Operating Capital

Generally speaking, profit ratio is a measure of a corporation's operating performance. Profit ratio can be expressed either by net return on total assets and operating return on operating capital. In our study, the latter's meaning will be discussed. The operating return on operating capital is a criterion to measure operational efficiency of a corporation, consisting of capital turnover ratio and return on sales, as shown in the following formula:

$$\text{Operating return on operating capital} = \frac{\text{Shipment}}{\text{Operating capital}} \times \frac{\text{Operating profit}}{\text{Shipment}}$$

The question to be asked is to what an extent such figures as capital, shipment and profit, determined by modern accounting theory for a given corporation, could provide accurate measurement of operational performance of the capital.

Assuming that sales amount is not distorted by manipulation, it is one of the most reliable data of accounting (intra-company transactions or sales to affiliates excluded). Therefore, the denominator, i.e. the capital account, and the numerator, i.e. the profit, should be examined.

The term "operating capital" means the capital of a corporation used for its regular operation, and excludes outside investments and non-operating capital, as shown in the following:

$$\text{Operating Capital} = \text{Total assets} - \text{non-operating capital (construction in process} + \text{investment} + \text{deferred accounts)}$$

However innocent this may appear, there are various uncertainties. For instance, abnormal redundancy of fixed assets, leased assets, abnormal or bad inventories, lease equipments are apt to confuse depreciation and evaluation of obsolescence etc. On the other hand, operational profit being no more than the balance derived from modern accounting system, it is most prone to be manipulated, particularly by means of transfer of allowance and other institutionalized means of window-dressing. If we extend our considertion to the phenomenon in which profit is often identified as expense, the profit indicated as such on the book becomes all the more volatile. It must be concluded, therefore, that the value of those ratios, as a means to assess operational efficiency of a corporation, should be questioned seriously.

5. Duality in Use of Accounting Figures

In the stage of monopoly, plunder realized by capital is rapidly intensified by the tremendous growth of financial assets (credit) which reflects concentration and centralization of production on one hand, and also by development of the market of finance and credit on the other hand, which in turn acts as a booster to extend the control of monopoly body. Thus, based on the squeeze and plunder in the process of production and distribution, the fictitious capital market, which serves as an organ to issue securities, appears as a unique means of concentration of capital and plunder, as a symptom of decayed capitalism. These have naturally a very close bearing to the published financial data.

The task for corporation analysis is to explore relationship between the actual status of monopoly body, i.e. an individual capital, and the capitalistic fictitiousness of financial statements which are made on the basis of individual corporations. In order to do so, it is most important that researchers should have a clear understanding of the purpose of accounting based at corporation unit if it is to be used for analysis of published financial data, and also of the extent of legal window-dressing feasible in the accounting system itself. In other words, before accounting figures are analyzed, it should be borne in mind that the monopoly body, in order to promote effectively competition for accumulation of capital, does make a very good use of individual corporations as a legal entity, concept and a system, and that, moreover, it utilizes fictions and flexibility of published financial statements intentionally to achieve this objective.

Inasmuch as individual capital and corporations are essentially different, it is necessary that the relationship between the two is cleary understood. Then it will be in order to determine to what an extent accounting expressions of movement of individual corporations, as a unit for publication of financial statements, could distort and falsify movement of individual capital. Limitations of financial statements could only be assessed properly in such a perspective.

The fact that financial statements are published in order to produce certain effects bears witness to a specific closing policy. Consequently, our analysis must find out what is the desired effect in publishing of given financial statements, to begin with. If analysis is made on this standpoint, detailed examination of financial statement, particularly of certain figures such as depreciation, appropriation and transfer of allowances, valuation of inventory, "squeezing water out" type of treatment of assets, will readily disclose any change in the closing policy from the previous ones. Such knowledge will be indispensable to analyze real intention hidden behind the financial statements.

Financial statements are important not as a "mirror" of capital movement, but as a means of analyzing potential effect in publishing them. In fact, this aspect of financial statements is the key to assess the reality. Our claim that corporation analysis must be liberated from mere analysis of financial data makes it indispensable to consider financial analysis in terms of their intended effects and to examine the financial statements in a much more thorough way compared with the conventional approach.

We should also emphasize that as we gain more scientific understanding of limitations and fictitiousness of financial statements, their scientific application expands. In this sense, the second question arises concerning usefulness of accounting figures.

Theoretically speaking, in order for published financial statements to be useful as a means to give intended effects of publication, they must be assumed by public to express truths. If they are apparently false, their publication becomes socially and economically meaningless. The business accounting principles and audit by certified public accountants are two examples of the attempt to maintain creditablity of financial statements socially. Furthermore, financial statements, in order to be convincing, must reflect at least partially some aspects of capital movement through a corporation to which they apply. This is the reason why we maintain that theoretically it is possible to make a scientific use of published financial statements. In other words, we find a possibility to utilize the financial statements in that they are obliged to show, however partially, some truth about capital movement, in order for them to be effective in attaining their purpose.

This means that financial statements are actually the mixture of two contradictory contents. On one hand, they are fictive becaue of artificial manipulation for the sake of attaining intended effects of their publication. Profits and profit ratios are typical of those. However, on the other hand, in order for the statements to be effective, they must be tied down to certain reality with regard to the capital movement, for instance, shipment, cost of acquisition of fixed assets and other original entries of the like. The way to distinguish those two aspects is to understand two concepts already mentioned. One is the dimensional difference between an individual capital and an individual corporation, and the other is the fictitiousness and flexibility of modern accounting system. Those two perspectives alone can make corporation analysis a meaningful science within the broad scope of economic analysis, and they constitutes the very first step to overcome the limitations inherent in the modern business analysis.

II Methodology for Analysis of Modern Corporations

1. Perspective for Analysis of Modern Corporations and the Japanese Capitalism

Individual corporations are the objects of corporation analysis, and in this sense it does not require analysis of capitalism in general. What is required of the analysis is the understanding of certain characteristics of modern capitalism, which ennables to establish valid assessment of reality within a corporation. This is obvious once corporation analysis is defined as a part of analysis of current status of economy. In analysing corporations with such a view in mind, therefore, it should be necessary to bear in mind at least the following points.

TABLE 1 Comparison of Growth of Real National Products in Major Countries (Ratio to PY)

Country \ Year	Average 1958～67	1968	1969	1970
U. S. A.	4.7	4.9	2.8	0.25
Canada	4.7	4.9	5.0	3
U. K.	3.3	3.5	1.75	2.25
W. Germany	4.8	7.2	7.9	5.5
France	5.8	4.9	7.9	5.5
Italy	6.0	5.9	7.8	7
Japan	10.7	14.3	12.5	10.75

White Paper on World Economy (1970) pp. 5

First of all, we must recognize, as shown in Table 1, the fact the growth of Japanese economy has been extraordinarily high in comparison with that of other capitalistic countries. This bears witness to the fact that Japan's role as the stronghold of struggle with the Asian Socialism has been established under the U.S.-Japan Security Agreement, at the sacrifice of the Japanese working class and other nations of Asia.

Secondly, it gives some insight to the productive structures of the Japanese economy which realized such an extraordinary growth ratio. It has been made possible by the mass of educated and skilled, but low-wage labor and a very high dependence on American monopolistic capital in raw material

TABLE 2 Value of Imports and Exports by Special Classification of Commodity

Export	(Percentage)					
	Amount (1.000$)	Foods	Fuel	Light Industrial	Heavy Ind. Chemical	Others
1961	4,235.596	5.9	2.3	43.7	47.5	0.5
1965	8,451.742	4.1	1.5	31.9	62.0	0.6
1970	19,317.687	3.4	1.0	22.4	72.4	0.8
Import						
1961	5,810.432	11.5	64.0	1.4	22.8	0.3
1965	8,169.019	18.0	59.3	3.1	19.4	0.2
1970	18,881.168	13.6	56.0	5.5	24.3	0.5

Toyo Keizai, *Economical Statistics Yearbook,* 1971, pp. 315

TABLE 3 Number of Technology Import (Validation)

Year	No.	Year	No.	Year	No.	Year	No.
1949~50	27	55	72	60	327	65	472
51	101	56	144	61	320	66	601
52	133	57	118	62	328	67	638
53	103	58	90	63	564	68	1,061
54	82	59	153	64	500	Total	5,834

Economic Research Institute, *Introduction of Foreign Capital Imports,* (1970) pp. 3

TABLE 4 Five Major Technological Imports

General Machinery	1,630 (No. of validations)
Electrical Machinery	1,162
Chemical Industry	967
Steel/Non-Ferrous Metal	332
Transport Machinery	321
Total of 5	4,412
Total for all technologies	5,840

Ibid. pp. 4

TABLE 5 Source (Country) of Technological Imports-Big 5

U. S. A.	3,468
W. Germany	666
U.K.	395
Switzerland	393
France	217
Total of 5	5,139
Total for all technologies	5,840

Ibid. pp. 2~3

supply (fuels in particular) and inflow of technology, as well as the large share of industrial goods (petrochemical products for example) in the exports from Japan, with its heavy concentration to the U. S. (ref. tables 2, 3, 4 and 5). It is apparent that restoration of the monopoly bodies in Japan has been achieved with a heavy dependence on the U.S.

The third point to be noted is the struggle of the working class. The very high and fast growth of the Japanese economy has drastically altered the Japan's class structures. Population of working class increased by leaps and strides. Already in 1960, it occupied more than one half of the total productive population. Labor union has been successful to organize over one-third of the workers. On the other hand, despite a considerable progress of technology and automation, labor accidents have stayed at a very high level (ref. table 6), while the number of strikes has been increasing at the same time, indicating intensity of the struggle (ref. table 7).

Also, so-called "inhabitants power" and "consumer power", two children

TABLE 6 Labor Accidents

Year	Death toll & accident over 8 days of work Suspension	Number of severe accidents
1958	5,363 (men)	232
59	5,895	338
60	6,095	302
61	6,712	288
62	6,093	302
63	6,506	283
64	6,126	261
65	6,046	276
66	6,303	387
67	5,990	398
68	6,088	480
69	6,208	432
70	6,048	398

Ministry of Labor *Analysis of Labor Economy, 1970* pp. 161

TABLE 7 Strike Statistics

	Number of Strikes	No. of Participants	Strike Days
1966	1,239	1,130 (1000)	2,686 (1000)
1967	1,204	732	1,788
1968	1,537	1,163	2,821
1969	1,776	1,411	3,563
1970	2,256	1,720	3,770

Ministry of Labor, *Analysis of Labor Economy, 1970* pp. 167

of the economic growth, have greatly gained strength as an opposition to the monopoly body, forcing local municipalities to democratize themselves. All those factors have by now grown into a political powers of undeniable strength.

The fourth key consideration applies to the finance which has been at the root of the growth. Due to heavy dependence on (outside) borrowing for investment, the ratio of net worth decreased from 36.3% (of which 9.6% was legal capital) as at the latter half of 1953 to 19.6% (of which 10.2% was legal) as at the latter half of 1969. Backed up by "over loan" made available by the Bank of Japan, and characterized by introduction of foreign capital, financing through Konzern channels (either through banks or inter-company credits) and increase of capital stock (as the above-mentioned ratio of capital stock indicates) characterizes the basic relationship of Konzern-to-corporation financing, with its heavy dependence on the nation's monopoly capital.

Lastly, it must be understood that the growth policy was intentionally guided, monitored and promoted by the governmental strategy. It is a well-known fact that most industries and corporations considered the state as if they were parasites, drawing utmost benefit from this economic policy. Tax systems, subsidies, administrative grants, licenses, authorizations and approvals, price controls to begin with and regional development plans, structural improvement schemes, bankrate operation, quality inspection and even environmental regulations were used as a tool to assist comeback of monopoly.

Moreover, the last year's (1971) so-called "Nixon shock" acted as a strong pressure against the traditional growth policy. The struggle of people all over the world, with the Vietnamese people at the top, to fight U.S.-dominated imperialism now challenges the financial oligarchy in the world and exerts a decisive impact on the economic policy of advanced capitalistic countries.

2. Analysis of Industry and Company Group within the Industry Concerned

In order to pursue scientific analysis on the basis of good understanding of the basic characteristics of Japanese capitalism, it will be indispensable that the particular industry to which such corporation belongs be analyzed. Corporation analysis will go nowhere without a clear assessment of the position of that industry within a reproduction structure.

Generally, industries are classified into major categories of business, which could contain as many varieties as one may wish to distinguish. The common basic classifications are: manufacturing, raw materials supply, energy supply, trading, transportation, communication, warehousing and other distribution industry, banks, credit-research and othe financing, real estate and construction industries. Manufacturing could further be divided into capital goods and consumer products, with all their ramifications. The so-called "leisure/service" industry exists side by side with the consumer products industry.

This type of industrial classification gives each industry its own roles and characteristics within the structure of reproduction. With the manufacturing industry in particular, growth ratio is drastically different among various types of products, with a result that each share and weight are subject to constant changes. An example of such variances is shown in Table 8. It clearly indicates the growth, accumulation and concentration of production and capital for heavy/chemical industries, as well as relative decline that occurred among textile industry, fishery, and mining. On the other hand, decrease in number of corporations in the chemical, petrochemical and steel industries, in which advent of monopoly capital was particularly conspicuous, must also be noted.

TABLE 8 Breakdown of Top 100 Corporations

	1953	1969
Chemical	12	11
Electricity/Gas	11	12
Transport Machinery	8	13
Non-Ferrows Metal	8	8
Steel	8	7
Textile	8	3
Marine Transportation	7	4
Electrical Machinery	6	9
Foods	5	3
Petroleum	5	3
Paper•Pulp	5	0
Mining	3	1
Railways	3	5
Retail•Wholesale	2	8
Ceramics	2	4
Fishery	2	1
General Machinery	2	1
Service	2	0
Land-Air Transportation	1	2
Construction	0	4
Real Estate	0	1

Top 100 Corporations by paid-up capital *Concentration of Japanese Business*, Fair Trade Commission, 1971, pp. 28

As an example of increasing progress of monopoly, we should like to add that more than 50% of total output is achieved by two leaders in brewery, nylon, tyre, steel, computers and passenger automobile. Although such statistics would not be accurate without taking into considerations imports, it will give a fair idea as to how industrial growth varies from one industry to another, in conjunction also with the change of shares the monopoly attained in those industries.

With regard to the distribution system, characteristics inherent in production of each industry necessarily characterizes in turn the structures of marketing and competition for that particular industry. It goes without saying that the mechanism of distribution and monopolistic control would be different between capital goods and consumer products. In the latter's case, whether there exists a well-established sales network of its own would cause a big difference to the industry concerned. Also, those industries which depend heavily on export are directly exposed to international environment. Those circumstances, however, vary considerably in their intensity depending upon individual corporations within a particular industry.

The third point to be mentioned relates to the movement of working class. In each industry, it is a prerequisite of capital to secure sufficient supply of labor. The strategies would be different from one industry to another. Workers aim to establish union leadership in terms of trades. Inasmuch as the workers' power—both current and potential—differ greatly from one industry to another, it has a far-reaching effect upon the labor relationship, production, accumulation of capital and the extent to which labor can be obtained.

Lastly, use and control over the small to medium scale subcontractors require somewhat deeper theoretical considerations. Use of subcontractors is extremely widespread. In case of Matsushita Electric Company, for instance, more than 500 subsidiaries are used, and the parent company has at least 10% or more ownership in each of them. The pattern of control, however, is different from one industry to another, as well as depending on Konzern. The monopoly capital, generally speaking, develops along with progress of labor-saving. However, in the event where any essential process of production cannot get rid of a heavy concentration of laber content, the capital invariably seek recourse to subcontractors to the maximum possible extent. Part-timers and non-regular workers are also used. The practice of such reliance on the outside labor force differs a great deal by each industry, and it is most important that such practices be well understood as they are used by individual corporations in terms of an industrial sector. Without this understanding, corporation analysis will never be able to have access to the relationship with individual capital.

From a theoretical standpoint, as a result of social division of labor, each industry has its main companies with subcontractors and affiliates beneath them, forming a group. The monopoly body selects a main company in order to form an integral unit of production or else a group of companies concerned within a particular industry in which cycle of capital turnover takes place.

From a production-oriented point of view, such a group consists of corporations operating under a structured control over labor, raw materials, facilities and technology. More than one main company may tie up if there exists a close relationship between those main companies, and the group thus formed has the character of a trust. The author, however, does not consider those groups of companies as the typical form of individual capital. As will be discussed later, individual capital at the stage of monopoly is an individual monopoly body, which is made up of financial Konzern and the groups of corporations as explained already. The group of companies is therefore a lower unit of individual monopoly body, and while it has a certain autonomy of capital turnover within itself, it must be connected with Konzern by means of financial and other means. On the other hand, competition between capital groups is fought in each industrial sector. This is why the group of companies either competes, or centers into agreement with other groups, within that particular sector.

3. Konzern Analysis and Main Company

Table 9 shows the recent status of six major Konzerns of Japan. These

TABLE 9 Konzern Share—1969 (first 6 months) and 1970 (first six months)

(%)

	Mitsui	Mitsubishi	Sumitomo	Fuji	Daiichi	Sanwa	Total	All
Total Assets Employed ('69)	13.83	14.79	13.87	9.39	6.63	7.25	65.76	100
Share ('70)	13.73	14.70	14.32	9.19	6.49	8.25	66.67	100
Sales ('69)	16.77	16.00	16.44	10.72	4.53	6.70	71.16	100
Share ('70)	16.54	15.83	16.95	10.19	4.35	9.44	73.29	100
No. of Employees ('69)	12.85	14.96	12.79	8.37	7.05	7.25	63.27	100
Share ('70)	12.45	13.85	13.53	8.62	6.81	7.39	62.64	100

Note: The shares represent those of companies (650 in 1969 and 653 in 1970) listed at the Tokyo Stock Exchange, First Section, Financial institutions are not included

Source: Economic Research Institute, *Konzern Study, 1970~1971*

are, of course, very comprehensive and complex groups of corporations. Each Konzern has several main companies for each major sector of industry, forming an organic conglomeration of corporations in which various aspects of groups of companies are related, connected or controlled by financial and managerial ties. Moreover, such individual monopoly bodies have decisive influence that goes beyond economic system and over to politics, culture, social as well as military affairs, etc. It goes without saying that there are a large number of groups of corporations other than the big 6, and each of those groups constitutes a specific body within the industrial sectors concerned. They often enter into subordinate alliance with one or more of the six, or act as independent group within certain domaines.

At the stage of the monopoly, movement of individual capital is nothing but movement of individual monopoly body, of which Konzern is a typical example. To be sure, Konzern is much more than a mere unit of capital turnover, but it must be considered, nevertheless, as individual capital of monopoly body, in that they are "omnipotent" at that stage. The post-war Konzerns are different from those of before the war since the post-war Konzerns, completing a certain degree of concentration and accumulation of capital and production, now have their own financial institutions of divers characters (city banks, trust banks, insurance companies, security brokers, and affiliated local banks also) as well as trading firms active both in the domestic and international commerce and finance. In addition, there exists often an organ called "think tanks" and development centers for each Konzern,controlling and coordinating information, data and technological development.

Each Konzern has also a decision-making organ (meeting of main companies' chief executives) such as Kinyokai (Mitsubishi), Getsuyokai (Mitsui), Hakusuikai (Sumitomo), Fuyokai (Fuji), Godo Shachokai (Daiichi) and Sansuikai (Sanwa), and managers' meetings to coordinate various issues at lower levels.

In order to analyze characteristics of each Konzern, the most important factors are difference of the main companies' industry and extent of monopoly in the strategic industrial sectors within the total reproduction structure. The factors affecting relative expansions of Konzerns are many, but major factors are financing strength (including credits available from outside), technological and development capability, availability of capital and technology from abroad (i.e., overseas monopoly, particularly in U.S.A.). and labor management. For instance, in order to accomplish "scrap and build" policy which involvesmovement of capital from "declining industry" to "growth sectors", Konzern's overall strength must be evaluated.

How each Konzern is "bound" to the state power, such as political group within the leading party, also plays important factor as it relates to information acquisition and political influence. Diplomatic and foreign trade policies are of special importance from this viewpoint.

The preceding approach to analyze Konzern should precede analysis of corporation, in terms of its position within a given Konzern. However, although a member, such corporations have varying degree of adhesion to the superstructures. Also, it is normal for a Konzern to give a large degree of autonomy to its members for actual, short-term operation if it serves to enhance the strength of the Konzern. Actual corporation analysis must give due considerations to those factors.

4. Characters of Group of Companies and its Actual Form

The industrial analysis and Konzern analysis as previously discussed constitute the axes of coordinates indispensable for corporation analysis. Each company must be analyzed in relation to those bases.

In reality, however, it would be quite difficult to locate any company exactly on such axes of coordinates. For instance, a company may operate in a number of different industrial sectors. However relative the industrial classification may be, a corporation whose business extends over plural sectors must be analyzed in this context. A typical example of such a situation is the case of socalled conglomerates.

A conglomerate is a new type of development of corporation at the stage of monopoly. Absorption and merger are used as a means of concentration of capital, and whenever anti-trust and other legislation causes difficulty in achieving monopoly within certain industrial sectors, it does not besitate to absorbe corporations which are outside of such sectors. Traditional analysis of industry proves itself to be inadequate in such an instance.

Same remark could also be made for Konzern analysis. The question arises as to what should be used as measures of subordination of one company to a Konzern. There may be a big business on the border of two or more Konzerns; some big business or groups of companies may exist outside of any Konzern.

As we have already seen, groups of corporations must be divided into two categories. The one is a group of companies within a particular industry which is formed as a unit of capital turnover for technical and productive purposes based on the principle of social division of labor within an industry. Located around the main companies of Konzern, the group is characterized mainly by its vertical rather than horizontal integration. The other is a Konzern (individual monopoly body itself) as a large conglomeration of the groups of companies within an industry concerned. On the basis of groups belonging to the first category, main companies integrate them by financial and other means into a closely woven capital structure. Those two types of group should be clearly separated in theory and in actual analysis.

The modern theory, however, uses the ownership of more than 50% of outstanding stock as the measure of subordination, beyond which a company is a "subsidiary" of parent company. It is obvious that this is a formalized concept, and that actual subordination takes place not only by majority ownership. Borrowing, other types of credit, dependence of raw material supply, distribution channel; production facilities, technology, as well as managerial dependency all contribute effectively to substantiate integration.

Also, it should be noted that such relationships are highly flexible. Individual corporations are legally an autonomous entity. In case of a subcontractor in a group of companies concerned within an industry, control of the parent company could be very complete and direct. However, a big business, even within a Konzern, may move to another Konzern if it is not fully subordinated, or it may attempt to have relationship with two or more Konzerns or to cooperate with them depending on their own strength and circumstances of material supply, flow of technology, market and labor supply availability. Also, management of individual companies may not be as loyal as they are generally assumed.

Furthermore, under the pressure of capital investment liberalization and international competition, Konzerns do often cooperate in certain industrial sector. Similarly, foreign capital sometimes take the leadership of such cooperation among the Konzern, going sometime to merger of big business.

Individual monopoly body also takes the form of multinational company to invest abroad. Securing assistance and protection of the government, it takes the maximum advantage of local laws, in order to seek labor, materials, market and tax relief actively. Those corporation are "avant-gardes" of the international monopoly. Peter F. Drucker, by saying that "we need to have laws and policies that are adapted to multinational corporations～They must become a native citizen of the countries where they are located[7]" underlines one of the characteristics of those companies who adapt their policies and concept of legal entity to the local legislations.

5. Use and Limitation of Analytical Indicators

A. Character of Capital and Fictitiousness of Consolidated Financial Statements

The first task for corporation analysis is to fix the measure of a company's characteristic as a capital, i.e. its subordination to a Konzern. This must be accomplished not only on the basis of nominal stock ownership. As already stated, this should be judged also in terms of borrowing dependence, distribution channel, outlet, raw material supply, technological and managerial dependence. If the subject is a main company within a Konzern, almost all of those factors will indicate a strong integration to the Konzern. Neutral finnancing institutions (state-owned banks etc.) and those owned by other Konzerns, and the capability of self-financing play certain role in the picture; hence those should not be overlooked.

Difficulty arises in case of a company who is not a clear main company of a particular Konzern. Conventional theory invariably used took the stock ownership—including subsidiaries and affiliates. If a company's control is openly contested, majority ownership will become the final measure from a legal viewpoint. However, actual competition between monopoly capitals could sometimes establish control of a company without any stock ownership at all.

7) *Age of Discontinuity* by P. F. Drucker, 1968, pp. 128 (by Japanese ed.).

One of the main industrial policies of the Japanese government has been to assure growth by means of indirect financing (borrowing) and relevant tax reliefs, which so-called "over-loan" by the Bank of Japan supported. From the standpoint of individual monopoly capital, because of the investment amount and timing required, it has been usual for ordinary expansion and concentration of production/capital to follow the following sequence :

> Borrowing→investment for production facilities, backed up by technological innovation→excess profit→increase of dividend ratio and internal reserve→increase of stock price→stock issue→repayment of borrowing (increase of the scale allowed for borrowing)

in which Konzern's financial institutions play a key role. It is self-explanatory that the borrowed capital according to accounting becomes owned capital for the individual monopoly body, and intake of owned capital by means of stock issue becomes a means to mobilize outside capital in order to effectuate transfer of such capital for the benefit of the monopoly. Where a company finds its source of borrowing to finance investment in the most up-to-date production facilities is one of the most enlightening clues to understand characteristics of that capital.

On the other hand, it would be a mistake to believe 'control with out ownership' is all too important to discount importance of control by stock ownership. In considering liberalization of foreign investment and increase of institutional investors, stock ownership will be even more important as a means of control.

Another important fact is the existence of certain big buisiness who dominates an industrial sector without having close relationship to a particular Konzern. Such corporations intentionally maintain relationships with more than two Konzerns in order to safeguard relative autonomy of their capital. In such a case, their neutrality to Konzerns acts as an advantage within the industrial sectors. Other companies that belong to Konzerns often recognize their leadership in sofar as that sectors are concerned and accept "secondary" position. Some typical examples are steel (Nippon Steel Corporation), dairy products (Snow Brand), Security (Nomura), life insurance (Nissei) etc.

As the actual movement of capital gains more recognition as that of groups of corporations, there arises the need for more suitable theory and accounting systems. Consolidation of financial statements is one of the answer. The Accounting Council (in Japan) submitted in May, 1967 the "Recommendations concerning Consolidated Financial Statements". The Council is now in the process of studying introduction of consolidated system for financial statements and is expected to publish another recommendation. Already, since July, 1971, it has become a requirement to attach financial statements of "major subsidiaries" as an interim step. In all of these proposals and requirements, the basic criterion is majority ownership, with further exceptions concerning subsidiaries in unrelated business (recommendation) or those which are not considered "major" (interim provisions). Consequently, accounting expressions of activities of a group of companies are inseparable from window-dressing. This amounts to reverse use of good intentions to eliminate manipulation and window dressing as far as possible by obligating disclosure of subsidiaries. Although it is somewhat "advanced" in comparison with previous disclosure system, it would be overly optimistic to expect that reality of individual monopoly body could be given fair accounting expression of its own by such compromises and limitations. Moreover, the real aim of disclosure, for the capital, is to demand tax exemption for unrealized internal profit on the claim that transactions between consolidated companies are so-called 'internal' transfer. It could be well expected that such a demand will be conceded in the future.

B. "Rationalization" and Labor Indices

It has been pointed out that one of the major achievements of critical analysis is the establishment of labor indices[8], and efforts have actually been made in various analyses to ascertain numerically extent of exploitation and plunder. However, it can be said that despite those efforts, the objective is yet in the stage of early expectations. At this time, therefore, it would be necessary to evaluate the results of past efforts made in this field.

A question that arises first of all is whether such data as sales, profit, added value, tangible fixed assets, retirement allowance reserve and other figures 'per employee' could be regarded as valid labor indices. If we assume that such indices would express actual status of workers, i.e., those who are attached by "rationalization" in terms of numerical values, the above-mentioned values per employee becomes misleading. For instance, sales per employee could be a measure of an enterprise's growth, but it would be hard to be qualified as a labor factor. If sales is expressed in terms of individual sales worker, or production/operating production facilities per employee (but not just tangible fired assets), then such figures would become somewhat more meaningful.

In the same way, 'average wage' as shown, for instance, in the Security Report does not mean anything. Any labor union worthy of the term usually conducts extensive opinion sounding and survey of wage in order to determine its own policies in making demands and planning offensive. As it is, it would be useless to discuss about wage system and its actual state of application without studying the data obtained by the workers and their actual opinion. For instance, the so-called 'average wage' is the wage level that applies to less than one-half or one-third of total employees in reality. We must not be misled

8) "Achievements of Corporation Analysis and Future Tasks" Part 1, Symposium, The *Keizai*, September 1971, pp. 216.

by methodological traps and confused as to statistical data which are used to neutralize valid and justifiable 'feeling' of working people. This is what must be borne in mind when 'per capita' or 'average' figures are used for analyses.

More specifically, there have been cases where female and young workers are forced to do illegal overtime work, and where the workers are paid on the basis of legal working time rather than on actual time spent for the work. Therefore, in order for the analysis to be meaningful, it would be not sufficient to rely entirely on statistics. Field survey would prove to be very enlightening. In the same contex, pretended reduction of working time does not necessarily mean improvement of labor conditions. In many cases it is a management initiative to enfore improvement of productivity, where holidays are 'voluntarily' used for training, work gets more intense, break time is cut down, starting time is advanced, or closing hour is delayed, etc.. Employment contracts may discriminate temporary workers, part-time employees etc. which even labor unions frequently fail to assess because their membership is limited to regular workers only. Same attention must be paid with regard to subcontractors' or subsidiaries' workers.

Particularly, massive introduction of new technologies starting from the latter half of '60 is characterized by automation backed up by increase of scale, volume and laborsaving. As workers are subjected to more strain and their health—both mental as well as physical—is manaced, while on the other hand there is increased dependence on subcontractor. Subcontracting cannot be analysed by simple accounting data such as 'work subcontracted' etc, which in fact are disappearing from financial statements. The more the work is labor-intensive, painful, dangerous or undesirable, the more they are subcontracted, and payments therefore are usually dispersed among relevant accounts. The presence of 'consumable' workers—temporary employees, part-time employees, seasonal laborers, subcontractors, etc. constitute the largest source of surplus value, particularly since they are not organized, and they form the lowest level at which struggles are carried out.

Also, when analysis is made on the 'rationalization', scale of production facilities and capacity in physical terms, rather in terms of monetary amounts, should be questioned. Some of the indispensable data in this connection include: professional diseases, labor accidents, comparison of those among corporations in same industry, ratio of their occurrence, safety or health countermeazures, periodical health checks—how they are done, and how labor's demands are made and accommodated, etc.. Those could be called 'workers' right' factors.

Lastly, we must mention the 'exploitation' or 'squeeze' ratio, which is usually expressed, for individual corporations, as:

$$\frac{\text{Gross profit on sales}}{\text{Labor cost}}$$

It is sometimes called, tactfully enough, "pseudosqueeze ratio". This somewhat over-simplified formula is partly based on the demand to establish a counterpart of economical concept also for corporation analysis, but it never-theless could be misleading. Firstly, when surplus value rate is calculated by macro-econometric means through corporation statistics etc. for all industries or one industrial sector, such ratio could be meaningful as an approximation of squeeze ratio. However, it will not be theoretically tenable in the micrometric order of individual companies, i.e., an artificial unit of components of individual capital.

The second point concerns the problems such as transfer pricing between subsidiaries, pricing policy under monopoly, use of subcontractors, accounting flexibility of transferring employees' retirement allowance reserve (treated as labor expense) and other items, which are artificial and flexible measures to promote exploitation in terms of accounting.

Lastly, even if these accounting procedures and data used are correct (which is a mere hypothesis, given the basic characteristic of published financial statements), it should be pointed out that labor expense, or the denominator, is accruals during a period in question, whereas the differentials, or surplus value, are not strictly those that accrued during the period, and when inventory of finished products fluctuates, the portion of surplus value contained in the amount of fluctuation will not be included in the sales profit.

C. Comparison of Corporations and Indices of Growth

Growth indices are indispensable yardsticks to measure the extent of capital accumulation along with those relating to labor. One of the common measures used is ranking of corporations, such as the one published by the Fortune Magazine on the basis of sales. Another approach is to consider the total of balance sheet items (total capital) as measures of growth. Such comparison might be meaningful if the corporations to be compared belong to a same industrial sector, but it would be meaningless to extend comparison to those who are not. Manufacturing, trading, and financing companies do not stand comparison. Even inside manufacturing industries, there is a fundamental diffenence between a capital-intensive industry and labor-intensive industry. Therefore, even in the modern analysis, several indices are mentioned only as references, to be used at will by those who are concerved. An example is the "Ranking of Companies Listed in National Stock Exchanges, First Section" published by Toyo Keizai, which indicates total assets, legal capital, tangible fixed assets, number of employees, sales, net profit, dividend ratio, and export ratio[9]. This simply means that comparison of companies is by no means easy. Even if

9) Economical Statistics Yearbook, 1971 (Vol. 3606) pp. 302-303, Special issue of the *Toyo Keizai*.

two companies belong to a same sector of industry, simple comparison of their accounts will be misleading, because it may be that research and development, sales or other operations are assigned to their subsidiaries, or else, manufacturing may be subcontracted with varying degrees.

When each item of assets is compared with one another, in terms of its size or growth, cares should be taken as to the fact that its meaning may change in each instance. Assets, for instance, include 'fictive' assets and 'real' ones. The former serve only for accounting purposes, while the latter includes both 'operating' and 'non-operating' assets. Also, not all of the operating assets may be shown as such. Among the typical of fictive assets are deferred accounts, bad debts and obsolescent assets not yet fully depreciated. Non-operating assets frequently include excessive inventory, and unused production facilities. As mentioned already, leased assets are not included even if they are actually operating, because they are not owned by the company in question.

Of all the items that belong to assets, the most important and basic ones as measures of accumulation and concentration of production would be tangible fixed assets as a means of production (excluding land and construction in progress account), although importance of this item could be different dependent on specific types of industry. A considerable difference may occur, however, as to whether the figures used are original costs or book values. If a company is large enough to enjoy monopoly, it can make profit as such and can afford excess depreciation (special depreciation and depreciation with tax) which will indicate apparently rather slow growth if comparison is made on book values. On the contrary, with a company whose business is so unsatisfactory that depreciation is not adequate, apparent growth could be larger. Under these conditions, it could be said that original cost is more reliable than book value as a yardstick of production capacity and labor output, because the former can give monetary indication of production capacity at the time of closing.

When investigations are made on the accumulation of one group of companies in the stage of monopoly, investment account in each individual company should be carefully studied. Although expansion of margin trading is based upon the increase in appraisal value of land and securities owned by corporations, they are shown, for the purpose of accounting, based on the principles of cost or market, which is lower, or of original cost. Yet in many instances their increase is remarkable in terms of absolute amount and of growth ratio as well.

With regard to credit created between corporations, i.e. accounts receivable, notes receivable, accounts payable and notes payable, it should be noted that those accounts are shown as those at a closing date, and that the time required for collection may be quite different from the time during which payments are made. According to the modern theory, current ratio and liquidity ratio must be over 100% and 200% respectively if the corporation could be said to be stable, but the theory is defective in that it assumes collection takes place at the same speed as payment. In the stage of monopoly, control exercised by monopoly body results, among other things, in discrepancy between acceleration of collection of bills and delay of payments, i.e. between the balance of accounts/receivable and payable. Consequently, stability ratio for such monopolistic company apparently 'deteriorates' while in fact this bears witness to that company's power to utilize this gap at discretion. In short, the amount between the two is nothing but additional concentration of capital to that company.

On the other hand, inasmuch as long-term debts and self-financing are the major sources of a company's found for strategic growth, those should be studied very carefully. Reserves, provisions and other means of self-financing based on accepted accounting method must be analyzed for each corporation to be studied, in terms of its policy for reserve and growth. Leasing, a new form of credit, must also be checked, although it is not shown on Balance sheet. At the same time, transfer of profits to other companies (parent company or subsidiaries), royalty, technical service fee, interest and similar expenses constituting disposition of profit, must be evaluated in order to have a good idea of profitability.

In comparing those indices, it is important that apart from growth, the real power of monopoly must be assessed by means of indices that translate accumulation and absolute size of that particular monopoly capital[10].

D. Accumulation of Contradictions and Decay

Decay is one of the key aspects of capital's attributes at the stage of monopoly. It is a phenomenon caused by increasing inconsistency and without taking this into consideration, analysis of capitalism will be meaningless. If, on the contrary, attention is concentrated to this phenomenon, corporation analysis could become a very effective weapon to arm people's united front. Therefore, in order to analyze the phenomenon of decay, we must have a very clear 'problematic conscience' in selecting the objects (corporations) and matters to be analyzed.

The first syndrome of decay is stagnance, as expressed by operational ratio or degree of usage of production facilities a corporation owns. This apparently quantitative indication has a very important social impact. For instance, when a particular industry is operating on the average of eight hours per day, which in consequence can be considered the basic operational rate, introduction of overtime and shifts in operation at one company will cause its operational

10) "Monopoly Giant—Law of Capital Accumulation" by S. Toda, the *Keizai*, January 1970, pp. 250.

ratio to increase over 100%. Another example is an attempt of a company to monopolize, hence to prevent other from using, patents and know-how in order to safeguard its monopoly. In such case, it is usually very difficult for outsiders to penetrate in the real state of things.

In Japan, the decay first of all manifested itself, as a results of technological innovation and accumulation of monopoly capital, as acute environmental deteriorations. Technological innovation helped corporations' growth only at the sacrifice of people's health. Secondly, it has manifested itself as a drive to stimulate consumption for the sake of consumption. It is one of the key aspects of the technological innovation that research and development served to create intentional and planned obsolescence and deterioration, such as model changes, design changes and other means to promote consumption. In worse cases, companies did not hesitate to offer harmful products to the public, for instance, the use of artificial flavor and colour known to be hazardous. Pharmacentical and food industries are notorious in this respect.

We know a number of cases in which drugs that are supposed to promote health were in fact ineffective or even dangerous, where milks were unmilky, where dairy products manufactures decreased milk contents in order to secure profits. The problem of decay is particularly important in the case of consumer products. Coupled with the problem of monopoly pricing, it frequently leads to consumer resistance. In this connection, we maintain that corporation analysis in the matter of decay should provide sufficient support to such movements—be it consumer power or that of local inhabitants—when demands are made and feasibility of movement is evaluated. Furthermore, progress of such movements will doubtlessly stimulate the scientific analysis, because it will force the corporations to give away more and more data.

Another symptom of capitalistic decay is the parasitism to the state and local municipalities. In addition to subsidy grants and taxation measures, there are a number of means to maintain the parasitism, such as industrial relocation act, development of local industry, and other measures by which special protection is offered to monopolistic corporations under the pretext to 'protect' and 'modernize' key industry. It would be needless to say that various administrative measures—guidance, control, permits, issuance of licenses—to encourage restructuring of monopoly body and to legalize the decay and parasitism.

The economic basis of parasitism and its typical expression can be found in so-called 'rentiers' supported by established security market. Attention should also be paid to the advent of institutional investors and its effect upon published profit, i.e. interest and dividends of corporations, and also to various other types of income such as technical fees, royalties and other income as they grow both in real terms and in size for each corporation.

In connection with the labor movement, capitalistic attempts aimed at domestication of labor union have already resulted in some instances where union leaders and management hierarchy have mixed with each other and produced labor aristocrats and bureaucrats. Moreover, in some extreme cases, unions rather than corporations have played more active role to fight with leftists. On the management side, the politics of human relations has become extremely astute. The management, on the pretext of 'humanism', multiplied 'commendation and award' system, group suggestion method, voluntary training, selfreporting system, cultural and athletic activities, effective use of company newsmedia etc. in order to entangle workers into ramifications of capital structures.

Another significant aspect is the wide-spread application of American-influenced labor management commonly called 'alphabetical movements' such as ZD, QC, VA, IE etc., which in many cases found strange coalescence with the traditional, Japanese style labor management.

Furthermore, the capitalism also tries to take advantage of demands of labor as an opportunity to use them as a means to diffuse workers. Housing grants, allocation of shares to employees, pension scheme etc. have been put into practice in order to contain younger workers and to develop competition among working people. 'Onefamily' campaign is actively promoted, and property-formation scheme is advocated with a view to mobilize more funds for the industry. Backed up by tax system, those initiatives have been greatly in use among enterprises.

It is important for us to know and understand correctly how those contradictions and measures to ovecome those are being implemented and translated on the level of individual corporations.

Conclusion

So far, we have discussed the approach to critical studies and methodological development in corporation analysis. It is of paramount importance that corporation analysis be given its due position in the entire framework of analysis of actual status. Based on the knowledge and judgement of economics, full and effective use must be made of business administration theory, accounting system, technology, laws, mathematics and logics. Conclusion must not be drawn too hastily based on one or more accounting figures and their assessment. As mentioned previously, those figures must be considered and analyzed in a broader perspective.

Also, inasmuch as academic arguments could often be 'divorced' from the reality, all analytical data and materials must be checked for their validity by workers' feeling.

Those problematic consciences are common to all critical business analysis from a subjective viewpoint. However, in terms of practical methodology, the basic approach we tried to discuss in this thesis is believed to be the first attempt made as an integral whole, although each method has already been used. Corporation analysis as a part of analysis of actual status will become possible only on the basis of scientific integration of all accumulation that includes economics, business administration theory, accounting and experiences gained through joint struggles of the working class.