



Accounting control and interorganisational relations with the military under the wartime regime: The case of Mitsubishi Heavy Industry's Nagoya Engine Factory

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ABSTRACT

Using Mitsubishi Heavy Industry's Nagoya Engine Factory (NEF) as a prime example, this study aims to demonstrate that accounting control executed by the military under Japan's wartime system was designed to be flexible enough to incorporate the commercial motives of business organisations, and that it adapted to environmental and organisational changes that occurred as the Second World War progressed. To this end, the study explores how and why the NEF's system of cost accounting, where there was a unique combination of in-house production and specialisation, was synthesised into a set of unified cost accounting rules promulgated by the military as a result of interaction between the two. The research specifically examines the NEF's autonomous rationalisation efforts as directed by its manager, Junji Fukao. Utilising original archives kept by the military, we show that the military, as represented by the Army, initially attempted to impose accounting control by creating legislation and imposing strict supervision, unilaterally promulgating cost accounting rules that private factories were compelled to adopt. As the military and private factories interacted, however, their relationships became more cooperative and specific cost accounting features employed at the NEF came to be integrated into the military's unified rules.

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1. Introduction

Stressing the need to study the relationship between accounting and the military, Funnell (2009: p. 575) suggests that “the influences that the military might have had on business accounting” is a topic with “particular promise for accounting historians”. Echoing his thought, scholars have investigated the intricate relations between war and accounting (Armstrong, 1987; Black, 2001, 2006; Chwastiak, 1999; Chwastiak & Lehman, 2008; Funnell, 2005, 2006; Gallhofer & Haslam, 1991; Loft, 1986, 1994). Evaluating the efficacy of military performance became an object of accountability (Chwastiak, 2006: p. 30; Cobbin & Burrows, 2010: p. 154; Funnell, 2005: p. 307; 2006: p. 721). At the same time, war influenced the accounting functions of private enterprises (Funnell, 2009: p. 573; Funnell & Chwastiak, 2010: pp. 150–151; Heier, 2010: p. 200). Military intervention intensified, intended primarily to improve economic efficiency and productivity and enhance mass production and control over prices. This often bore fruit, but sometimes malfunctioned when it became too dogmatic (Tiratsoo &

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Tomlinson, 1993; Zeitlin, 1995). The military intervened very visibly in enforcing cost accounting in private enterprises, again with both positive and negative results (Boyns & Edwards, 2013; Fleischman & Marquette, 2003; Loft, 1986; Marriner, 1994; Talbot, 2006).

Funnell (2009: p. 575) specifically calls for research on the relationship between accounting and the military “in non-Anglophone settings” because it might “allow the introduction of a far greater diversity of government forms and constitutional practices than that which presently dominates the study of accounting and the military” (Funnell, 2009: p. 575). This study responds to his call and focuses on the development of cost accounting in private enterprises in interwar and wartime Japan.

In its effort to increase the wealth and military power of the state, especially through victories in the First Sino-Japanese War (1894) and the Russo-Japanese War (1904), Japan steadily increased its military strength in the early 20th century. Through the Anglo-Japanese Alliance, Japan went on to participate in the First World War, although its involvement was limited. Japan benefited economically from Europe’s increased demand for supplies, but unlike the UK, where cost accounting came “into the light” during the First World War as Loft (1986) argues,¹ widespread awareness and use of cost accounting in Japan was not evident until the advent of the “industrial rationalisation” (*Sangyo Gorika*) movement in the 1920s (Okano & Suzuki, 2007: p. 1123). As will be seen later, however, a limited number of private enterprises, especially those called the *Zaibatsu*, had already implemented some forms of cost accounting by importing important management tools, along with other production technologies, from Europe.

Early in the Second Sino-Japanese War, which started in July 1937, and particularly with the enactment of the National Mobilization Law (*Kokka Sodojin Ho*) in April 1938, Japan unfolded a peculiar controlled economy it had never before experienced. In this context, a more acute awareness of cost accounting in business enterprises came about under direct military intervention that aimed at compensating for a shortage of productive resources. The wartime system began by controlling commercial information held by business organisations, but expanded to exploiting political techniques to dictate supply and demand. It nurtured strategic industries and compulsorily mobilised resources such as the labour force, raw materials and equipment, funds, and technologies. It transformed the mechanisms of corporate governance from stockholders’ actions into multiple structures involving customers, business associations and, most importantly, the government and the military (Okazaki, 1999: p. 118; see also USSBS, AD, JAI, 1947). Accounting control (*Kaikei Kantoku*) of business enterprises, as typified by the enforcement of cost accounting at private munitions factories nationwide, was “a large-scale experimentation on a national level” (Kurosawa, 1990: p. 417) and the effect has generally been assessed favourably as having improved and standardised a practice that had formerly been remarkably diverse (Kurosawa, 1990: pp. 407, 417–418; Moroi, 2007: p. 9).

For the US aircraft industry, Fleischman and Marquette (2003: p. 97) specifically assert that shortages of skilled workers and arbitrary governmental costing exclusions, called “World War II dislocations” in their argument, “were dysfunctional to purposeful cost accounting” that had to some extent been established on the ideas of scientific management. In view of this contrast between the adversaries in the Second World War, this study undertakes a fresh investigation to determine the extent of the purported success, as alleged by Kurosawa (1990) and Moroi (2007), of cost accounting enforced by the Japanese military’s intervention. In doing so, it responds to Funnell’s (2009) call to expand and add to international comparative research on the military and accounting.

This study also helps fill a gap in the existing Japanese accounting history literature, which is still dominated by static explanations of how the military, with the enactment of the “Inspection Order for Munitions Factories and Workplaces” (*Gunjuhin Kojo Jigyosho Kensa Rei*) in October 1939, imposed cost accounting on private factories (Chiba, 1998: p. 54). Research that examines how rules for enforcing cost accounting were created through dynamic interaction between the military and private manufacturers in the wartime system is especially sparse. As a result, accounting control executed under that system has been assessed simply, portraying strict coercion by the military. Unlike previous works, this study aims not only to clarify how the rules enforced by the military promoted improvement and standardisation of cost accounting practised in private enterprises, but also to show how unique features of cost accounting being practised by important private enterprises were incorporated into the rules promulgated by the armed forces. This means that the private enterprises had already developed some forms of cost accounting, particularly influenced by the national government, which had promoted the concepts of scientific management in the 1920s and 1930s. They also successfully modified the content of rules subsequently imposed by the armed forces. This study, then, illustrates that accounting control executed under the wartime system in Japan was able to avoid becoming too dogmatic by being designed flexibly enough to incorporate the commercial motives of business enterprises and by adapting to environmental changes that occurred as the war progressed.

Relying on extensive evidence found in the archives of the Japanese armed forces, this study takes Mitsubishi Heavy Industry Co. Ltd.’s Nagoya Engine Factory (NEF), a major Japanese aircraft engine maker, as a prime case where peculiarly interdependent relations with the military developed over time. Specifically, this study analyses how and why the cost accounting practices of the NEF, where there was a unique combination of in-house production of special-purpose machine tools and specialisation in the production processes of engines and associated parts, became integrated into the unified cost accounting rules that the military imposed on the entire aircraft industry. Aircraft production was one of Japan’s five strategically prioritised industries (Osaka Asahi Newspaper, 26 February 1943–6 March 1943), but Fleischman and Marquette (2003) are the only accounting historians who have investigated it to date.

¹ For a counterargument to Loft’s stance, see Boyns and Edwards (2013).

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