Governance, Control & Co-ordination in Network Context:

The Cases of Japanese *Keiretsu* and *Sogo Shosha*¹

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**Abstract**

This paper examines the arguments raised by scholars on the comparative advantages of the stock-market capitalism and Anglo-American ‘shareholder’ system for corporate governance and the ‘relational-insider’ system of the welfare capitalism in Germany and Japan, and whether the ‘superiority’ of the former may be based on false assumptions of the sources for productivity growth and managerial efficiency. It is an established fact in the literature that specific governance relations exist in different markets, and the mechanisms for financing and coordination of business operations and control of assets and resources are shaped by the local institutional environment. The modern corporation in its present organisational form is a multinational enterprise that in most cases controls assets in multiple markets, and is therefore tied in contractual relationships with local governments, suppliers, customers, and institutions beyond the reach of its home governance structure. The adversarial competitive relationships in one market are not replicated in another, where different context of the competitive environment applies.

The paper offers two cases of corporate networks (the Japanese *Keiretsu* and *Sogo-Shosha*) that differ from the multidivisional form (M-form) of organization. The analysis of the cases tests some of the premises established in the corporate governance debate and leads to conclusions that governance, control and co-ordination mechanisms focused on interdependent relationships and optimization strategies generate specific advantages in the value-creation process.

**Key Words**

*Corporate governance critique, Japanese business networks, Keiretsu, Sogo-Shosha, Shako-kai, collaborative governance, managing interdependencies through coordination and optimisation strategies*

**Introduction**

Most of the discussion on corporate governance has been driven by the scholarship research that focuses attention on the Anglo-American corporate system based on publicly traded assets, distributed ownership, separation of ownership from control at corporate level, and the distribution of rents among investors and other residual claimants. The discussion has been dominated by concerns with the effectiveness of the Boards of Directors that are supposed to

represent shareholders’ interests, and to exercise a monitoring and control function against the opportunistic behaviour of managers. The development of the shareholder system has been sought mainly through alignment of the interests between managers and shareholders and improvement of the information asymmetry between them. The present crisis of the system is attributed mainly to weak Boards and lack of independency of the outside directors in order to exercise their governing role (Gupta, 2002). The remedy of the system is sought to be enhanced by more active regulatory intervention on behalf of government, regulators, stock exchanges self-regulation, and positive action of the corporations themselves to enhance transparency and rebuild the trust with their stakeholders.

This discussion ignores the fact that the modern corporation in its present form is a multinational enterprise in most cases, it controls assets in multiple markets, and it is therefore tied in contractual relationships with multiple host-governments and local suppliers, customers and institutions beyond the reach of its home governance structure. Therefore, the adversarial competitive relationships in one market are not replicated in another, where different context of the competitive environment applies.

Another critical question often omitted from the discussion on corporate governance is the scale of operations of the multinational corporation (MNC). The very fact that some large multinational firms have annual turnover exceeding the budget expenditure of developed national economies such as Belgium, or Italy suggests that the scale of co-ordination and control within a multinational enterprise is at the level of co-ordination and control of economic activities within nation states. The issues of governance therefore have to be addressed also at the level of public administration, accountability, and power relations between agents that constitute the complex system of operational units, owned or controlled by the multinational corporation (MNC), all embedded in the institutional environment of their location.

The debate on corporate governance also has not benefited much from comparative analysis of the institutional arrangements that have shaped MNC from different countries and socio-economic systems. The work by Sanford Jacoby (2000) is one of the exceptions that informs this perspective, and reaches the conclusions that the ‘superiority’ of the stock-market capitalism and Anglo-American ‘shareholder’ system for financing and control of global corporate activities over the ‘relational-insider’ system of the welfare capitalism in Germany and Japan may be based on false assumptions of the sources for productivity growth and managerial efficiency.
This paper will not focus on definitional arguments concerning corporate governance. We accept that there is no consensus over what corporate governance is, but there is significant implicit and common understanding of the concept that derives mainly from agency theory, transaction cost economics and stakeholder theory. According to this body of knowledge (Solomon, et.al., 2004), corporate governance refers to:

- a process of supervision and control over company management;
- economic agents giving overall direction to firms;
- the sum of control and co-ordination activities that compose of the internal regulation of business in compliance with external obligations;
- the system by which companies are directed and controlled;

In our analysis we will assume that corporate governance is a system / mechanism for allocation of resources, control and co-ordination of economic activities at firm level that facilitates strategic direction, accountability, transparency and wealth creation. Economic growth, productivity and efficiency are all seen as deriving from this wealth creation, and in the context of increasing corporate social responsibility and accountability. On these grounds this paper attempts to address the question on efficiency, scope and scale of governance by examining the institutional arrangements that govern two distinctive corporate networks taken in the context of a single regulatory regime in Japan. A comparison of the Japanese Keiretsu network corporations and Sogo-Shosha networks tests most of the premises established in the corporate governance debate, and offers two cases of corporate networks that differ from the Anglo-American multidivisional form (M-form) of organization, and both resemble large scale MNCs geared for growth.

**The ‘Classical’ Theory of Corporate Governance**

The observations of the paradoxes of power and control at the level of the modern corporation refer back to Berle & Means (1965) and their work on the consequences from the separation of ownership and control. Fligstein and Freeland (1995) stylise from the literature three internal control problems and even wider range of external control issues that extend the debate beyond the unbundling of ownership and control. The authors argue that the corporation may encounter
tensions and conflicts of interests in each of these relationships: 1) the control relationship between management and workers, 2) relationship between management and shareholders; 3) division of labour and the subsequent division of power and responsibilities within the corporation or intra-corporate intra-management relationships, 4) relationship with investors and capital markets, 5) relationships with suppliers, 6) relationships with competitors, 7) relationships with the state, with governments and other public institutions. One may only speculate how each of these relationships could act as an important contributor to the increase or decrease of corporate productivity and performance. The obsession in the literature therefore with the problems associated with investors’ control that derive from the unbundling of ownership and control (Blair, 1995a, Castanias, 2001, Gupta, 2002) is much more about the redistribution of rents among shareholders and residual claimants, rather then about improving corporate performance, enhancing corporate capabilities, and capturing the value added by different corporate agents.

If we look at the corporate governance as a mechanism for allocation of resources in the economy and for creating value-added, then we need to consider all relations between economic agents that are critical in determining productivity and efficiency. The relations between shareholders and managers (ownership and control) no doubt are fundamental to financing corporate growth. So are the other relations from Fligstein and Freeland’s list. Shareholders and Investment Fund managers need to have trust in the working of capital markets in order to make their funds available. Managers and workers and all other actors involved intra-management and intra-corporate relations need to have consent over the operations and the strategic directions of the firm in order to expropriate the invested capital in the most efficient way. Relations with suppliers are critical to achieve superior quality and to increase competitive advantage. Relations with government are critical for the legitimacy of the corporate activities and therefore affecting relations with all other stakeholders. Even relations with competitors are important for determining industry standards and as a form of self-regulation, avoiding costly and deadly collisions in the market place, and co-ordination the direction of product and process innovation.

The efficiency arguments that derive from the neo-classical economic theory commence with the assumption that shareholders are these entrepreneurs that invest their capital in efficient manner, and managers are another type of entrepreneurs, that take risk and make strategic decisions through which they achieve the ultimate corporate objectives for enhanced performance and profitability. The evidence of the source of efficiency in this scenario is very inconclusive.
Neither corporate performance is a direct evidence of efficient allocation of financial resources, nor are profitability and share price an evidence for efficient risk taking and managerial co-ordination of value-added activities. Corporate performance is directly affected by environmental factors, market conditions, and relationships with customers and suppliers before it get noticed and sanctioned by the governance structure. Profitability and share price also are affected first by the market conditions, and then by the governance mechanisms.

Economic growth is affected not only by the mechanisms of financing and control, i.e. a particular corporate governance system, but also by market conditions and location advantages in international business operations of the MNCs. Therefore economic performance of an MNC is a function of both governance and strategic decision making. Wealth creation for shareholders and stakeholders is a derivative of economic performance of the MNC, and therefore will be hugely dependent on the intra-firm and inter-firm structures and relationships that facilitate decision-making and decision implementation. Any comparative analysis of corporate governance systems and models ultimately has to descend to the level of relations, structures, and systems of strategic decision-making and decision implementation in order to reflect on the sources of productivity and wealth creation.

Both issues - the separation of ownership from control and the creation of intra-corporate hierarchies - create conflict of interests between different corporate agents, and both generate sources of inefficiencies, by allowing politics to take place in the process of managing corporate resources. The outcomes of the political process inside the corporation is a critical factor determining corporate performance before it gets to the accounts seen by independent directors at the Board.

Independent political processes take place simultaneously inside the corporation (affecting decision making and decision implementation), inside the Boardroom (affecting the function of the independent directors and the entire Board as an institution), and inside investment funds (affecting investors’ attitudes and the certainty of capital supply). Clearly political processes affect not only the allocation of capital to productive assets, but also the efficient expropriation of this capital for wealth creation. The argument that stock markets prevent the influence of political factors on the allocative decisions in the context described above is at least imprecise. The assumption that derives from this argument, that the stock-market capitalism is the most effective way of financing economic growth and wealth creation has to be questioned at least.
Another argument that has been raised to support the superiority of stock-market capitalism is the question of transparency and information supply/sharing between economic actors. If we take Herbert Simon’s (1957) modification of the neoclassical assumption of perfectly rational economic actors, there is a clear statement of the existence of informational asymmetries and the problem of incomplete information. If we add to this problem the cognitive and political constraints experienced by economic actors (independent directors on the Board of Directors, Investment Fund managers accountable to Fund owners, managers in industrial relations dispute, or corporate representatives in difficult negotiations with buyers and suppliers), the efficiency argument is further weakened. The main efficiency enhancing elements of the corporation that remain are the individual contractual obligations (when contracts are enforceable under strong and efficient state), and efficient organizational processes and procedures for coordinating the value added activities (in the hands of insider stakeholders). If we accept that the state and inside stakeholders contribute to strong governance in the home market, this raises a major question over the governance of subsidiaries abroad where host governments vary in the capability to secure contract enforcement, and insiders are embedded in local set of relations. The discussion above can be synthesized in the following conceptual framework (Fig.1.).

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**Fig. 1. Factors Affecting the Corporate Governance System: A Conceptual Framework**
In addition to contract enforcement practices and insider stakeholder relations, the productivity and cost effectiveness is fundamentally determined by the organisational structures put in place, technologies and innovation practices. It is the organizational structure in Williamson’s view (1975, 1988, 1991) that economises on transaction costs, rather than the governance structure. The governance structure has evolved merely as a substitute to compensate for the inefficiencies that emerge from the separation between the ownership and control. It can be assumed that the Board of Directors in whatever shape it is would not bring value added to the corporation, unless it takes direct responsibilities over strategic decision making and implementation. Its monitoring and control function does not enhance corporate performance, and may not add value. Sanctioning managers for opportunistic behaviour is not a value adding activity by itself, but a final resort when crisis is imminent. The true value-adding activities derive from the co-ordinated actions of managers, workers, investors, suppliers and customers among other stakeholders whose influence is observed not only in terms of corporate performance, but also in terms of effectiveness of decision making and co-ordination efficiencies.

The agency theory substantiates most of these arguments on efficient governance. Considering that the corporation is a bundle of contracts, the contracts between managers and shareholders is not different from the contract between the other agents involved in the value-adding activities (employees, customers, suppliers). Investors as owners of stock in the stock market capitalism delegate decision-making powers to agents (managers and independent directors). Ultimately agency costs rise not only because of opportunistic behaviour by managers, but also from the monitoring and control mechanisms put in place by stock-holders. The entire corporate governance system, put in place to protect investors’ interests, represent an institutionalization of monitoring and control procedures, raising costs, and diminishing allocative efficiency. In mature market economies where contract enforcement is undertaken by the state, monitoring and control costs are shared between the MNC and state institutions. The costs of corporate governance however, remain at corporate level, reducing the value-added and the wealth, created by the corporation. For MNCs operating in underdeveloped market economies, risks from opportunistic behaviour at remote locations add additional agency costs that have to be absorbed by the multinational, and hence multiple risk-sharing initiatives are undertaken, all eroding the profits from these international operations.
Hill & Jones (1992) summarise three sources of agency costs from the perspective of agency theory: a) principal’s monitoring expenditure (including the design and management of corporate governance system, appointment and running of Board of Directors, and all types of shareholder activism); b) agents’ bonding expenditure (managing the intra-corporate accounting process, plus all risks of managing relationships with the other stakeholders); and c) residual loss (supplementing for risks, taken beyond the home market where specific corporate governance and contract enforcement exists. Contract enforcement is an issue in all types of relationships and all corporate governance systems. Exit strategies by customers, suppliers, employees, or indeed investors could harm the corporation and affect negatively its performance, even in the case of strong governance.

The agency theory also explains the emergence of other types of business organizations along the joint stock corporation with M-form controlling its subsidiaries world-wide – partnerships, sole proprietorships, non-profit organizations and holding companies as well. Different division of property rights arises in alternative search for efficient deployment of financial resources under specific conditions (Fligstein & Freeland, 1995). Although the idea is that these specific conditions are related to specific agency costs (Fama & Jensen, 1983), there could be numerous other reasons where one form or another is particularly associated with enhanced performance under certain environmental conditions.

The overall performance of the corporation is affected by numerous environmental factors and numerous agents that contribute willingly and under contractual arrangements to the value-adding activities. All these agents (workers, employees, middle-level managers) potentially can exit and withdraw their efforts, and therefore damage the corporate performance. In the political process of negotiating contracts between all these corporate agents residual claims to the profits may be raised, and therefore the allocation of rents may take place almost outside of the corporate governance system and subsequently off- sight from the shareholders. According to the agency theory, the monitoring and control activities of the Board can not secure efficient contract negotiations and enforcement within the corporation, and this is associated with one of the vulnerabilities of the stock-market capitalism.

Transaction cost theory uses very similar terminology to the agency theory to describe the same corporate governance issues and problems (Solomon, et al., 2004). Both theories assume bounded rationality and opportunistic behaviour by managers. However, transaction cost theory explains
the conditions under which a corporation undertakes vertical and horizontal integration, adding new business units, and how a corporation expands its operations internationally. Both theories do not follow through this logic and do not explain how internationalisation of operations stretches the boundaries of the corporate governance system established at the home market. The increased scope and scale of operations ultimately transfer more strategic decision-making power to agents beyond the reach of the monitoring activities conducted on behalf of the ‘principle-owners’.

The institutional and evolutionary economics has also made a contribution to the debate by adding more questions regarding the efficiency of the Board of Directors as a governing institution. Both disciplines have evolved mainly as a critical theory in argument with the classical and neo-classical economic paradigm. In this endeavour institutional economists have agreed upon assumptions, systematically analysed by Hodgson, 1988), such as:

- recognition of the importance of institutions, i.e. rules, procedures, practices and organisational arrangements that frame economic decisions and actions;
- acknowledgement of the chronic information problems undermining the fundamental price mechanism governing market relations;
- the habitual nature of human actions, conditioned by institutions and past legacies, or the well known ‘path-dependence theory’;
- acknowledgement of the purposefulness and strategic choice in human action, or the ability of actors to change both their behavioural trajectories and their goals;
- disequilibrium is the driving force behind development and growth;
- the continuous transformation of productive and organisational technologies, impacting on exchanges, transactions, and decision-making;
- a variety and a complex set of relations affecting production and exchange;
- the preferences of economic agents are endogenous, suggesting that decision-making is a function of the relational context and environmental constraints embedding human activities and work relationships;
- individual preferences (or motives) can be both transitive (affected by the price mechanism) and intransitive (an individual attribute preconditioned and determined within specific cognitive frameworks, and endogenously derived at). Preferences also are reflexive, i.e. subject to change under the acquisition of new experience, knowledge and learning, and individual adaptation;
- knowledge and learning make a significant impact on decisions and human actions;
- the preconditions for innovation are a combination of variety (through market transactions) and stability (through organisational rules, institutional norms, and practices). The later includes institutional intervention at knowledge creation, dissemination and utilisation phase;
- agents are seen to be maximising ‘expected utility’ and optimising behaviour (Hodgson, 1988, p. 76), rather then maximising behaviour. Provided computational difficulties, limited information, abundance of sense data, and the sense-making communication process, agents are more likely to optimise towards expected utility, rather then maximise;
- prices act as market signals only within some cognitive frames of ‘price levels’ and ‘price norms’ known by the individual, and established via individual observations or practical experience in exchange situations;
- firms and other institutions emerge in order to eliminate the radical uncertainty that a signed contract will be completed, i.e. creating a compulsory framework for compliance (rather then a voluntary withdrawal from opportunism.

Institutional and evolutionary economics challenge the fundamental assumptions behind agency theory. Unfortunately, very few of their arguments have entered the corporate governance debate. One of the most popular is the path-dependence theory that argues for the historical and socio-political embeddedness of economic institutions, determining their working and effectiveness. The path dependence principle can be applied not only to the development of the corporation, but also to the development of its governing institutions, constrained by their own histories, and locked in self-enforcing development loops. The governance system is not expected to match performance and it remains unchanged in cases of both good and poor corporate performance. Attempts are made by investors to tied-up the interests of inside directors with corporate performance through incentive realignment. Overall the corporate governance mechanisms are seen as a bundle of monitoring, control, incentive realignment and shareholder activism, and it is recognised in the literature that there is a threshold below which investors are not capable to exercise any control, but can only exit. Shareholder activism to exercise monitoring and control over the corporate management (representing strong governance) is associated with both good and poor performance, and paradoxically accelerates monitoring and control costs which undermine corporate efficiency. The tension becomes evident in situations of crises when poor performance can not be explained by weak governance as shareholder activism is high (Ward and Rodriguez, 2004).
From institutional economics perspective weak governance may be a result of inadequate information, insufficient learning and knowledge creation, intransitive preferences of agents that obstruct innovation and adaptation, or particular relations affecting negatively the corporate activities. Most of these factors are not very easy to manage whatever shareholder intervention takes place. The outcomes depend very much on the good will and good practices established within the corporation, which depend on the cultural and relational context of the business. This clearly suggests that the governance mechanisms in multinational corporations will have a variable efficiency between the home country and the host countries. This creates additional difficulty to regulate governance reforms, as the governance mechanisms designed for MNCs need to have intrinsic flexibility that corresponds with the environmental and relational contexts in the host countries.

The institutional environment affects not only corporate performance, but also Board performance, or the working of the governance institutions as well. The empirical research by Pettigrew and McNulty (1995) shows clearly that the power of outside directors to exercise a positive effect on the corporation is limited not only by the Chairman of the Board who effectively runs the Board and can manipulate discussions, but also by contextual factors such as:

- personal capabilities and legitimacy,
- the need to maintain a positive attitude in this collaborative settings,
- political will and interpersonal skills in building Board coalitions,
- the need to subscribe to norms and expectations that derive from the role of outside director,
- the learning time required to grasp the complexity of the corporation, and
- the interpersonal dynamics that emerge as an outcome of the selection of board members (Pettigrew and McNulty, 1995).

The effectiveness of the Board as a monitoring and control devise (or institution) is rather circumstantial. How agents adapt to these circumstances is essential, and the robustness of the governance institution may depend on it. Selecting Board members of MNCs is complicated not only by their personal constraints and capabilities, but also by establishing the complementarities of knowledge that different board members possess, and how adequate it is to technology innovation and foreign market entry in order to drive the developments in corporate activities.
Margaret Blair (1995a,b) launches her critique over the assumptions underpinning the current Corporate Governance paradigm from alternative perspective, revisiting the ownership rights and responsibilities issue under distributed control conditions. She describes the corporation as a legal structure that governs the relationships between all parties that make special investments in the wealth-creating activities of the firm. From this position the distribution of rents is negotiable between all claimants (suppliers, lenders, customers, employees) where the value of the specialized investments contributed by each party depends on the ongoing relationships between them. As a bundle of resources the financial capital is tied up to the human capital in corporations and it is not easy to attributed ownership to distinctive parts. Hence the corporate performance should be measured in a way to capture the real value-creation from all employed resources, rather then the value-restructuring through corporate takeovers, mergers, sell-offs, buy-outs and other asset-restructuring exercises undertaken by corporations and captured by the share price (Blair, 1995a). Blair also concludes in a very eloquent statement that “…corporate governance discussions that start from a premise that shareholders are the sole ‘owners’ of the corporation, that measure wealth creation only in terms of the share price of corporate stock, and that focus only on the power relationship between shareholders and managers have the emphasis wrong. Reforms built on this premise may even destroy wealth-creating capacity” (Blair, 1995b, p.17). This statement does not include acknowledgement of the additional cultural and institutional differences that entangle the processes of the MNCs, and the value-creation and value distribution between home and host market economies.

Another realistic view on the Anglo-American centered governance system points to the evolution of the financial instruments designed to diminish the value of corporate risk and debt through securitization, which takes off the balance sheet a number of critical performance indicators. Susan Bies (2002) in her speech refers to financial engineering and risk-management practices such as asset-backed commercial securitization, derivatives, options, futures, forwards, that transfer risk exposure outside the corporation, providing liquidity and reducing funding costs. In this environment of declining values of equity and debt, the new rules for disclosure of off-balance sheet transactions obviously aim to compensate for managerial ingenuity in hiding risk. At the same time there is already a pessimistic opinion that even the new rules can not guarantee full transparency due to the variable outcomes from risk-management techniques.

Having raised all these criticisms, it is important to look at other alternative governance systems, and to compare the stability of relationships under different institutional arrangements.
Comparison of the Institutional Arrangements within the Stock-Market Capitalism and the Welfare Capitalism

The literature on comparative governance systems is generally split into two streams. The first accepts the Anglo-American centric view that the most productive organizational form is the Multidivisional corporation (M-form), and the most effective form of corporate governance of the MNC is associated with the separation of ownership from control, financing through the stock market, and the use of independent Board of Directors. The other stream is looking at specific national institutional arrangements that facilitate the relationship between the corporation, investors, government, suppliers and customers, or the concept of the embedded corporation, as a network of affiliated wealth creating units, agents and institutions.

Sanford Jacoby (2000) describes these two paradigms as ‘stock-market capitalism’ and the use of shareholder governance system (SGS) and ‘welfare capitalism’, and the use of relational-insider governance system (RIGS) that is based on dedicated capital and insider allocation of resources - such as the systems in Japan and Germany. The strongest control device of the SGS is the exit by shareholders or independent directors (Jacoby, 2000), labelled as the ‘market for corporate control’ with its two-tiers (independent directors and shareholders). The notion of independent directors has emerged to control the behaviour of executive directors in order to protect investors’ interests. The strongest control device of the RIGS system is a strategic Board that comprises of representatives from investors with the largest holdings of corporate assets and management directors engaged in collaborative decision making. In the RIGS system shares are also held by key customers, suppliers, and allied corporations on a reciprocal basis (Jacoby, 2000), a fact acknowledged also in the literature as ‘alliance capitalism’ (Gerlach, 1992b).

Jacoby (2000) explains the emergence of the two distinctive governance systems with the differences in the legal protection of ownership rights. In the Common Law countries such as US and UK the courts were effective in protecting investors’ rights against ‘monarchical’ (or state) expropriation, and against insider dealing. At the same time the Civil Law countries offered much weaker protection of ownership rights, and hence the tendency towards concentrated ownership and control by the Banks (Jacoby, 2000). Although this is a very convincing argument, it does not explain, for example, the differences between UK and US, i.e. the US system is geared much more towards litigation, while the UK system is oriented towards conciliatory practices (Philips, 2002).
There seems to be an overwhelming opinion that in spite of some signs of convergence, the evolution of governance systems world-wide is shaped by national institutions and circumstances, and is taking off in separate directions. For example the current reforms in the US, led by Sarbanes & Oxley report put much emphasis on independent directors, even stricter rules for financial disclosure, and Chief Executives and financial directors to swear to the accuracy of their financial reports. At the same time, in the UK following the report by Higgs (Higgs, 2003), the emphasis has shifted towards professional qualities of the non-executive directors, and adopting voluntary codes of self—regulation, allowing corporations to adapt more gradually to changing stakeholder expectations (Economist, 2002). To contrast this with the governance system in continental Europe, German Law puts responsibilities for the accounts on the Management Board, the Supervisory Board and the Auditors collectively, allowing the system to find a balance between the interests of investors sitting on the Supervisory Board, and the Executive Managers. In France the government and the public administration takes direct responsibilities to influence large French corporations through industrial policy measures.

Although the role of institutional investors has increased throughout the world, it is also taking different forms. In Japan the largest public pension funds that manage over US$1.6 trillion have formed a Council of Public Institutional Investors, and are collectively discussing portfolio investment strategies and administration, managers’ evaluation techniques, new investment techniques, regulatory changes and fiduciary responsibilities, and cases of institutional investors in other countries (Feinberg, 2002). These collective efforts go far beyond the Council of Institutional Investors in the US, engaged primarily in monitoring and benchmarking of corporate performance and lobbying (Rodriguez & Ward, 2004). The Japanese Institutional Investors demonstrate willingness to share responsibilities both for shaping their institutional environment and moderating the risk of their portfolios – another example of optimizing behaviour contrasted with the maximizing objective in a classical competitive environment.

It is evident that comparative analysis of corporate governance systems and practices enriches the academic framework that deals with the problems of corporate governance. However, much of the comparative research does not take into account deep enough the criticisms to the Anglo-American corporate governance system either from the agency theory point of view, or from the institutional perspective. The convergence/divergence debate also has not been followed through systematically from Corporate Governance perspective. Jacoby (2000) argues that parallel to
converging business practices at the level of financing and control of MNCs, the institutional rigidities created by path dependence, the absence of a micro-economically superior model of corporate governance, the serious doubts about direct relationship between corporate governance and macroeconomic performance, create a platform for multiple development trajectories. The following part reviews two distinctive governing practices in the context of the Japanese system of ‘alliance capitalism’. The purpose of this comparison is to highlight two distinctive forms of governance of large networks that have evolved within a common institutional environment.

**The Japanese Keiretsu and Sogo-Shosha Corporate Networks**

Among the evidence of convergence between the ‘stock-market governing system’ and the ‘relational-insider system’ are the changes that are taking place in Japan. These are: the large and liquid market for corporate equities, the governance reforms in the 90’s permitting a number of stock-market practices established in the US capital markets (such as equity swaps and stock purchases by corporations), and banks engaged in liquidating shareholdings (Jacoby, 2000). However, these changes are slow and superficial, as they do not lead to a radical transformation of the corporate governance system. Jacoby also reaches the conclusion that there are limits to convergence, and that a path which is locally efficient is not necessarily globally efficient. There are mechanisms which act as complementarities and substitutes in different historical and institutional settings. For example the very high innovation rates in Japan are a result of big-company funding and corporate spin-offs, rather than venture capital like in the US (Jacoby, 2000). If we consider that venture capital is one of the attributes of the stock-market capitalism then it is very difficult to explain that it has high profile in the US economy and its profile in the UK has diminished. This is evidence of divergence within rather than convergence across governance systems. Arguments about the superiority of one of the governance systems discussed above are difficult to sustain due to fundamental differences in the pace of economic growth. At the same time comparative research can identify specific governance mechanisms within each system that enhance efficient allocation of resources and effective control over the management of these resources.

The aim further in this paper is to compare two Japanese cases of governance of corporate networks – the *Keiretsu* governance and the *Sogo-sosha* governance with the purpose to identify specific institutions and mechanisms within the welfare capitalism that facilitate economic growth and wealth creation.
Japanese zaibatsu / keiretsu

The history of the big business groups in Japan keiretsu starts with their pre-war establishment as family-controlled business networks called zaibatsu, or giant trading conglomerates that ran most of pre-World War II Japanese industry. The historical Japanese family business zaibatsu resembled a closed intra-family corporation, where family investors were not able to take back their own investments, and some family businesses remained undivided for more than 300 years (Numazaki, 2000).

As a form of business organisation, zaibatsu was controlled by a family council Shacho-kai, and the change of the number of partners took place only through family adoption, by marriage, or by birth and death. The difference in inheritance law in Japan and China, is perhaps one of the most significant factors historically that led to the consolidation of the family power in Japan and Korea, compared with its relative fragmentation in China or other countries with similar legal arrangements.

The zaibatsu institution combined the wealth of rich merchant families, the organizing capabilities of warriors, and the expertise of university graduates in order to create large-scale family controlled conglomerates. Zaibatsu represented also a corporate network and was an organisational form, that emerged in response to market failures at the time of Japan's early industrialization after the Meiji Restoration in 1868 (Hirschmeier and Yui, 1981, Imai and Itami, 1984, Lynn and Rao, 1995). The market failure at that time is described as the inability of capital markets to allocate efficiently resources to entrepreneurs because of the lack of an infrastructure to mobilize savings and to facilitate risk assessment for investment in new business ventures, especially, in industries such as mining, steel and shipbuilding (Lynn and Rao, 1995). Jacoby (2000) also puts forward the arguments that Japan, like Germany, France and other European countries experienced the pressures of late industrialisation catch-up, and the state played an active role to mobilise national resources in order to level up with already industrialised Britain. The relational governance system allowed the Japanese government to protect infant industries and to allow them to grow. Although with the development of Tokyo stock market an alternative mechanism of financing investment and growth was established, the old tradition prevail until the most recent consolidation across the financial sector in Japan.

The new enterprise system in the 20th century comprised of narrowly focused and inter-linked factories, effective at transferring new technologies between the Western economies and the
Japanese economy (Imai, 1992), and possessing 'permeable boundaries' that enabled them to gain economies of scope (Fruin, 1992). Part of the system were the zaibatsu in-house 'organ banks', insurance and trust companies, that enabled the zaibatsu to overcome the weakness of the Japanese stock exchanges, and to mobilize and channel financial resources to entrepreneurial ventures (Lockwood 1954). The retained profits were allocated to new ventures through internal finance and budgeting systems, which facilitated endogenous growth.

On the one hand, the zaibatsu controlled constituent units through stock held by the holding company, through centralized purchasing and sales functions, and through despatching directors to manage subsidiary units. The holding company exerted authority over the constituent units to reconcile incongruent goals and aspirations. On the other hand, the zaibatsu were market-like organizations to the extent that constituent units behaved independently and competed for resources, and some of them acted as entrepreneurial organizers of economic activity (Gerlach, 1992a, Lynn and Rao, 1995).

Fig. 2: Japanese Keiretsu Business Networks

- Institution-centred 2-tier governance system
- Multi-level boundaries of corporate units with interlocking ties
- Resource & capabilities-based division of labour
- Managing through co-ordinating interdependence

In the post-War period, serious attempts to dismantle the Japanese holding companies were made by General MacArthur and the occupation forces in 1946. Subsequently, encouraged by
government industrial policies, the reunification of formerly connected businesses through cross-shareholding and mutual business dealings under the name of \textit{keiretsu} took place. Many of the \textit{zaibatsu} practices, traditions, and network formations were resurrected.

The present \textit{Keiretsu} networks comprise of close, long-term business relationships established by large corporations with selected groups of smaller firms, financial and trading institutions. They represent a web of overlapping financial, commercial, and governance relationships, initiated from a central core to pull-in large segments of the Japanese economy (Gerlach, 1992a, 1992b). Present Japanese inter-corporate \textit{keiretsu} relationships are considered in terms of three different structural conditions to facilitate interactions: corporate groupings, financial centrality, and industrial interdependency through value chain activities. These groups are not conglomerates as the central holding companies are illegal under Japan's post-war commercial law. The companies are independent and publicly owned. However, they are linked through cross-shareholding investment and the exchange of personnel, through shared debt and equity, and mutual strategic plans. The strategic leadership resides within the presidents' club \textit{Shacho-kai}, where implicit rules and shared understandings in unstated "gentlemen's agreements" lead to co-ordination and general co-operation for mutual benefit (Futatsugi, 1986, Kester, 1991, Gerlach 1992b, Shimotani, 1995, Tezuka, 1997).

\textit{Shacho-kai} as an institution represents the interests of the inner circle of the \textit{keiretsu} as a clique of firms whose reciprocal commitments stem from long association and strong collective identity (Lincoln, \textit{et.al.}, 1996). This association of the presidents holds monthly meetings to discuss group strategy. It supports group solidarity, mediates intra-group activities, and settles intra-group disagreements. \textit{Keiretsu} members can thus develop plans based on activities that other \textit{keiretsu} members are pursuing. Although it appears that \textit{Shacho-kai} facilitates insider trading and may be called ineffective allocation of resources, it does provide an efficient platform for managing intra and inter-corporate relationships, which is a major contributor to wealth creation within the corporate group.

Numerous firms lacking \textit{shacho-kai} seats are also tied to the group through their financial and commercial transactions, and through various forms of monitoring and governance. For example, middle managers of \textit{keiretsu} firms meet monthly to discuss operations and to co-ordinate corporate activities. This is another effective mechanism for intra-group knowledge management.
that facilitates learning and innovation within the group, as well as sharing best practices on a wider scale.

Other direct linkages within the keiretsu are represented by the stable corporate cross-shareholdings, by dispatch of managers to insider director positions, and by director interlocking as control relations that are superimposed on the network of business dealings (Lincoln et.al., 1996). All these mechanisms lead to alignment of interests among managers within the group and would strengthen the governance framework. In addition, these co-operative relations bring intrinsic value to the corporate network as they smoothen the internal negotiations between agents, and member firms. These relationships also facilitate co-ordination for innovation, development, and growth.

Regarding the cross-shareholding within keiretsu networks, share ownership is a symbol of commitment and mutual obligation, rather than motivated by expectations of dividends and returns on investment (Tezuka, 1997). A typical keiretsu core company will have 20% to 40% of its stock owned by other companies within the keiretsu. Long-term shareholding agreements with other corporations create a situation whereby 60% to 80% of the keiretsu stock is never traded (Industry Week, 1992). As the stock market is not the main source of financing for the corporate group, this limited trading of shares of large Japanese multinational groups is not necessarily a detriment, but could be interpreted as a spare and underutilised mechanism that can be employed in cases of financial difficulties.

In addition to these direct forms of relational governance, there are a number of other indirect ties that bond the commercial and investment activities within the keiretsu, such as: (1) the selection of keiretsu trading partners, (2) the amount of borrowing from group banks, (3) the extent of shareholding by group banks and corporations, (4) the selection of board members from the management of big leading firms (Lincoln, et.al., 1996). These represent specific governance mechanisms that enhance international operations, generating both internal and external synergies.

Overall financial and commercial dependencies exist both ways: on the group banks for borrowed capital, and on the group manufacturers and trading firms as buyers and sellers of products and services. However, the ‘relational-insider’ governance system appears to be better equipped to
manage interdependencies, as it has established institutions, mechanisms and platforms for negotiations, information sharing and enhanced intra-corporate learning.

There are numerous classifications of Japanese *keiretsu*, emphasizing on specific aspects of the network formation – vertical, horizontal, supplier-based, bank-centred. Overall there is an overlap between different categories, and most features are observed in each of the *keiretsu*. A supplier *keiretsu* is a vertical group of companies, centred along a major manufacturer, such as Sony, Honda, and Matsushita, which run multi-tier supplier networks. As an example of this form of business organisation Toyota has more than 60 percent of its parts and subsystems supplied by external contractors – tied in long-term contract relations, and Canon is outsourcing nearly 90 percent of the value added components in its copiers to related companies (Industry Week, 1992). The vertical *keiretsu* represents formation that is highly vertically integrated along the value chain. It is held together by a complex mix of inter-linked people, financial resources, information flow, parts and product exchanges, and joint technology development agreements. Toyota has established a first-tier suppliers' group, the *Kyoukoukai* (176 companies); Nissan has its *Takarakai* (104 companies). Members of the vertical *keiretsu* have had little choice but to accept this combination of co-operation and competition. Vertical *keiretsu* is a way to create competitive teams of inter-linked suppliers, engaged in product and process development (Tezuka, 1997, Kim and Limpaphayom, 1998). This governance form delivers both cost efficiencies (within the supply network) and enhanced productivity from co-ordination of business activities, technologies and practices.

Ownership is only a part of this linkage: most lead firms have minority shares in their suppliers. The lead firm encourages the second or third supplier to match the first supplier's cost and quality, often passing along important technical and process information on the first supplier's operations – a clear example of sharing competences and capabilities between competitors, which creates added value to the group.

The lead firm tries to avoid monopoly power in its network, thus stimulating all suppliers to be more efficient and price competitive. Suppliers in the same *keiretsu* group co-operate in projects, and yet compete with each other and with outside suppliers to excel in quality, delivery, reliability, and cost performance (Tezuka, 1997). This dynamic is an evidence of the positive effect of managed expectations that creates collaboration among competitors, and can be attributed clearly to the ‘relational-insider’ governance system.
The bank-centred *keiretsu* are larger than the supplier-only *keiretsu* and include those headed by the four largest pre-war industrial groups or *zaibatsu* (Mitsui, Mitsubishi, Sumitomo, and Fuyo) and the two major bank-centred groups, Dai-Ichi Kangyo Group and Sanwa Group. They are also called Mutual Insurance Systems (Tezuka, 1997). Their member companies come from a variety of industries, and they seek to integrate not only vertically, but also horizontally. Although there is a deep restructuring of these *keiretsu* groups triggered by the consolidation of the financial sector in Japan and the most recent merger of their group-banks, the literature has described sufficient details of their governance system at the pre-consolidation stage. Analysis of these governance practices is an important element of comparative research and an essential step towards monitoring of the impact of the financial consolidation on the *keiretsu* governance practices.

Financial or horizontal *keiretsu* represent a two-tier corporate governance system, where corporations are linked together through an extensive network of corporate cross-shareholdings, and corporate members have close ties to a main bank. The *keiretsu* bank not only provides member firms with debt financing, but also owns a substantial amount of each firm's equity (Kim and Limpaphayom, 1998).

In normal situations, usually the first stage of group governance intervention is in place, and corporate shareholders provide mutual monitoring through the linkages and institutions described above. When firms are performing well, *keiretsu* financial institutions do not restrain leverage levels, and *keiretsu* formations encourage cross-investment and collaboration among corporate members. Both corporate owners and managers take responsibilities for the higher leverage and for the expansion of trade credits and account receivables as a common source of short-term financing (Prowse, 1990, Kim and Limpaphayom, 1998). At this stage there is no significant relationship between ownership structure and financial leverage as banks approve and handle most transactions (Kim and Limpaphayom, 1998).

In situation of crises and reduced profitability the *keiretsu* network reacts with a second-stage governance intervention. The bank assumes control to reduce debt, and acts as an ultimate disciplinarian (Hoshi, *et.al.*, 1990). *Keiretsu* banks can reduce financial leverage levels of their member firms in several ways: (1) allowing interest concessions, (2) providing equity infusions, and/or (3) writing off outstanding loans. Financial institutions act as both debt- and equity
holders, and allow their member firms to carry more debt (Kim and Limpaphayom, 1998). The recent mergers of keiretsu banks are expected to have a positive impact towards increased financial discipline and reduced debt. This can reduce the banks’ bail-out powers, but it will not negate the other financial mechanisms that have been used in the past to assist group members in crisis situations.

*Shacho-kai* membership ties, as well as trade, debt, and equity ties are stable relations that increase the possibilities for assistance when a partner firm encounters difficulties. Member companies usually maintain or even increase their equity in the troubled firm. Directors are transferred from the main bank and major trading partners to the firm's board to assist in strategic and operational decisions. Network suppliers and customers adjust their contracts to favour the target firm and transfer technical personnel to its operating divisions. Network members may in addition mandate exclusive purchases from the target firm's product line until the crisis has passed (Lincoln, *et al.*, 1996). Enhanced financial discipline as a result of the banking consolidation is expected to raise the criteria for assistance, but it does not change fundamentally the governance system, and may have a limited impact on these practices of cash-flow assistance.

*Keiretsu* equalizes the fortunes of their members, smoothing inequality in financial returns across participating firms. Members are not able to maximise their benefits, i.e. extraction of profits and rents, but instead have been obliged to optimise output measures. *Keiretsu* networks are seen as clusters of large firms charging each other "efficient" prices (i.e., prices in line with their respective opportunity costs) while collectively extracting other market benefits through a collective action for maximizing the joint welfare of all member firms (Lincoln, *et al.*, 1996).

*Keiretsu* members face lower risk than independent companies in Japan, because the whole *keiretsu* group shares individual risks. *Keiretsu* companies obtain lower interest rates from both *keiretsu* banks and other financial institutions, and tend to have higher debt ratios than either independent Japanese companies, or their U.S. counterparts (Tezuka, 1997).

*Keiretsu* groups also claim to be an effective organisational system of minimising transaction costs, and reaping efficiency gains by economizing on information and control through regularized communication and exchange (Williamson 1985). They avert the threat of over-organization by keeping their contractual arrangements implicit and their modes of monitoring and intervention informal and flexible (Lincoln, *et al.*, 1996). *Keiretsu* membership can be
interpreted as ‘hedge against future failure’ (Aoki 1988:280). The advantages of keiretsu governance system are: their flexibility, adaptability, facilitated information and knowledge exchange, access to a range of alternative sources of financial assistance, and collaborative attitude to problem solving. These are an asset to the Japanese keiretsu groups not only in their home market, but also in their international operations. By integrating the political process within the system, keiretsu governance offers a valuable mechanism in building relationships with host governments in international business ventures, and other partner firms in multinational alliances, or with their foreign subsidiaries.

**Japanese Trading Networks - Sogo Shosha**

Japanese trading companies Sogo Shosha emerged since the 17th century and have further evolved from providing services as middlemen to their clients and keiretsu members to diversifying in different business areas with higher risk. In building diversified business portfolios they have settled as hubs in large business networks, controlling complex flows of resources. At various times shosha have acted as commission agents, importing and exporting on behalf of clients; as dealers, trading in their own right; as middlemen in transactions between members of a keiretsu network; as financiers, lending money to smaller keiretsu members; as facilitators and intermediaries in negotiations with foreign partners; and more recently as investment-trust managers, venture capitalists, and business consultants (The Economist, 1995). This description suggests that shosha represent the ultimate entrepreneurs, transforming every business opportunity into a profitable venture, relying both on own financial resources and raising capital from the stock market.

Many shosha are relying on their expertise as oil traders, and are currently repositioning themselves from being traders to operators in infrastructure industries, such as electricity generation, telecommunications, television broadcasting, and even satellite communications. Their current metamorphosis means shedding their past ‘low- margin’ role as agents and petty financiers towards businesses with high profit margins. They often form alliances with foreign companies in preference to alternative keiretsu partners. Their networks of partners are much more multinational than traditional keiretsu.
• Intermediary-centred governance system utilising mixed ownership & connectivity role
• Blurred ownership and control boundaries
• Asset-based division of labour
• Managing through controlled autonomy & controlled interdependence

As hubs in their own business networks shosha have always held large shareholdings in other companies. Some of their investments represent shares in keiretsu firms (The Economist, 1995), some holdings are in their own independent subsidiaries (the shosha have generally preferred to run their own subsidiaries as non-core activities). Now shosha exhibit the new role of Venture Merchants. Each of the leading shosha has between 10 and 20 subsidiaries that are eligible to be listed on the Tokyo stock market. Share trading appears to be an attractive business for shosha, and a powerful mechanism for the growth of their business network.

There is virtually no serious academic research on sogo shosha, and most of the information on their operations comes from daily press and business periodicals. However, they make a clear case of business growth through stock market operations where portfolio investment strategies are accompanied by commercial and business development strategies - all bundled under a holding formation. Although the holding company is illegal in Japan, and has not been very popular in countries with strong stock markets, it experiences a resurrection in developing markets. A holding company may reap synergies from building a large and loyal customer base and from cross-selling of group products and services (Gibson, 2002). A similar family holding company that demonstrates the case of shosha holding networks is the Ayala Corporation in the Philippines, which has benefited simultaneously from spinning-off subsidiaries, public trading, diversified acquisitions in high-growth market segments, alliance partnerships with MNCs, and
hedging risks and foreign depth through advanced financial instruments. Being entangled in multiple business relationships does not necessarily diminish the strong family control.

The main governance mechanisms of the shosha holding networks appear to be: flexibility in financing both through own capital and using financial instruments available at the stock market; close hub-and-spoke co-ordination of related as well as unrelated business operations; ‘employing’ trust relations through family linkages or other informal associations between managers of individual businesses; actively using stock market financial instruments not only for enhancing their return on capital (ROC), but also for reinvestment of this capital in productive assets and business operations, and the endogenous growth of their business portfolio.

Both cases of Keiretsu and Sogo Shosha resemble much more a holding formation, and offer two independent alternatives to the multidivisional form (M-form) of corporation with public limited liabilities and financed through trading on stock markets. Both cases demonstrate that the same socio-economic and institutional environment in Japan has nurtured two distinctive forms of governance, each of which offers different forms of bundling of ownership and control functions. Under the Keiretsu governance system there are two institutions engaged in monitoring and control, and both exercise ownership rights, and actively participate in strategic decision making and resource allocation. The Keiretsu Bank and the Presidents’ Association Shacho-kai are the main stock-holders that assume responsibilities and liabilities. Within the Keiretsu system they manage collectively the complex and multi-level network of corporate assets, utilising resource and capabilities based division of labour, interlocking resource ties, optimisation strategies, and co-ordination of interdependencies.

The literature on Sogo Shosha does not give many details on the institutional arrangements of their governance system. However, from the scares descriptions of their operations we may induce that their governance system is centred in the trading firm, which utilises a mixed ownership and connectivity function, controlling and directing the trading operations of its subordinate assets. The trading firms itself have neither full ownership, nor full control of the independent firms under their sphere of influence. However, Shosha clearly generates value added by facilitating trading and operability of these firms. Its network incorporates asset-based division of labour which allows the centre trading firm to coordinate multi-level operations. Shosha’s relationships with its subordinate firms exhibit a mixed form of controlled autonomy and interdependence.
Clearly both cases demonstrate governance systems that generate economic efficiencies beyond the specialisation between owners and managers and the effective control over the managerial function. Re-bundling of ownership and control within the relational-insider system facilitates good reinvestment of capital into economic growth and creates a number of institutions that facilitate smooth negotiation of contract commitments and outcomes. The lack of transparency, attributed to this system may be associated with limited accountability, but it is also associated with effective intra-corporate information sharing, learning and innovation.

Regarding their international operations, their governance flexibility and adaptability are a strong advantage compared with the MNC that originate from the Anglo-American stock-market system. The MNCs subject to the strict regulatory environment of the stock-market capitalism have evolved as a multidivisional form (M-form) of incorporation of subsidiaries, where full ownership and control is the most desirable relationship from the perspective of the ‘parent’ company. The network formation diminishes the costs of hierarchical control and coordination, and creates a more fluid structure of interlinked assets. On this basis it can be claimed that the governance costs of networks are lower compared with the M-form of corporation. Flexibility in financing investment and growth strategies is another advantage of network governance. Network formations also allow for more adaptable approach to managing relationships with subsidiaries, which will be a particular advantage in international operations.

Conclusions

Both Keiretsu and Sogo-Shosha resemble business networks coordinated from a centre that is not constrained by the division between major shareholders and executive managers. Shacho-kai is an institution developed to handle corporate responsibilities and strategic decision making. Shosha is a firm that is controlling both repetitive and market transactions, and is engaged directly and indirectly in operations management. Both cases exhibit a form of re-integration of the ownership and control function. How does this apply to MNCs and global business networks?

The MNCs have to handle and control multiple transactions in remote locations adopting a variety of co-ordination mechanisms – most of which have been invented for the purpose of effective administration and management of economic activities in organizations and institutions. The complexity of MNC operations requires a complex set of tools used by individual and collective agents – all engaged in a complex allocation of resources for operational and strategic
purposes. In this context the discussion of the decision making power of the individual members of the Board of Directors, or the accountability of insider agents to outsider shareholders and stakeholders merely reaches the paradox that there are no boundaries to managerial opportunism, and enhanced control that assumes tentative opportunism, generates merely more sophisticated evasive manoeuvres from executives entrusted to handle operational risks.

Collaborative governance demonstrates an alternative way for re-alignment of interests of all economic actors, and shortens the cycle for reinvestment of capital into productivity and growth, compared with the portfolio investment mechanism within the stock-market governance system. It facilitates information sharing, learning and innovation that ultimately brings comparative advantage to an MNC,

Ownership rights do not produce automatically enhanced accountability or ethical behaviour. Both of these outcomes require institutional support from a social canvas that evolves historically and in a particular legal and socio-economic context. Governance mechanisms taken out of this context may not work and may not be applicable to other systems. In addition to that, systemic changes are always costly to implement, and require radical approach.

This comparative analysis of the governance mechanisms that have evolved under the ‘relational-insider’ governance system illuminates some of the advantages of an economic system that have facilitated rapid growth and rapid internationalisation particularly after the Second World War. The criticisms of the welfare governance have been usually raised from a narrow perspective. This paper has widened the analytical scope with the synthesis of the critical arguments from agency theory and institutional economics perspective (Fig. 1). The proposed conceptual framework can explain why certain elements of the welfare governance bring competitive advantage at firm level.

Further research into the governance mechanisms behind Sogo-shosha is essential in order to explain the success of this form of business growth. The growing popularity of holding companies in the rapidly developing economies is evidence of the importance of this corporate form for growth and wealth creation. Most of the governance mechanisms discussed in the paper are subject to evolution, particularly under the influence of the on-going consolidation of the financial sector in Japan, and the changes in the regulatory environment. The existing research on Keiretsu governance will need updating in the context of the recent merger wave across Keiretsu
group banks. Comparative and longitudinal analysis is expected to enlighten the debate not only on systemic changes in Japan, but also on global convergence, and the conceptual framework in this paper is an effort to present a systematic view on the factors that affect corporate governance outcomes.

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