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# The persistence and implications of Japanese keiretsu organization

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J McGuire [✉](#)<sup>1</sup> & S Dow<sup>2</sup>

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## Abstract

This paper examines two important research questions: (1) To what extent have recent economic and regulatory changes influenced the Japanese inter-corporate network? (2) Have the patterns of firm performance fostered by the Japanese inter-corporate system remained stable, or has there been an evolution to more 'North American' performance profiles? Using hierarchical regressions to compare patterns of networking and firm performance with data from the periods 1987 to 1991 and 1992 to 1997, we find little evidence to support the existence of significant changes in the patterns and implications of Japanese industrial organization. We conclude that the keiretsu system remained strongly in place

throughout the first half of the 1990s. Nevertheless, we suggest that the continued move toward globalization of capital markets in Japan and ongoing regulatory change may potentially impact networking and performance implications in the 21st century.

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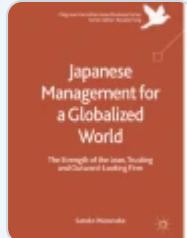
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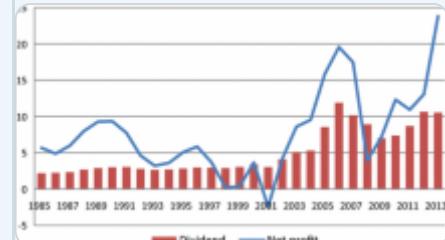
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## Notes

1. This insulation from market pressures is augmented by Japanese corporate governance practices, which make it very difficult for outside shareholders to have any impact on corporate governance ([Sheard, 1994a](#)).
2. [Ito \(1997\)](#) further suggests that the industrial domination of keiretsu companies may limit their growth in an increasingly service- and technology-oriented economy. [Gerlach \(1992\)](#), however, argues that the flexibility and uncertainty absorption offered by stable shareholdings are particularly critical during periods of rapid change. He also cites anecdotal evidence that foreign investors and firms may adopt more Japanese-style modes of behavior congruent with the Japanese context.
3. Indeed, this trend toward securitization of debt (replacement of bank financing

by other forms of debt) may also weaken the stable shareholding arrangements discussed earlier. This logic holds that reduced reliance on debt makes it more difficult for banks to balance equity ties with lending. In the absence of the additional monitoring and input provided by strong lending relationships, banks may hold significant equity positions. Further, greater liquidity in the security markets may fragment bank stock holdings ([Roe et al., 1993](#); [Gibson, 1998](#)).

4. See also [Weinstein and Yafeh \(1998\)](#) and [Campbell and Hamao \(1994\)](#).
5. There is some degree of overlap between horizontal keiretsu and certain vertical (buyer-supplier) networks. We eliminated a small number of firms belonging to independent vertical groupings (those having no established ties with the six horizontal groupings).
6. Although this period includes the 1987 market decline, [Johnston and McAlevey \(1998\)](#) and [Sheard \(1991\)](#) note that the market crash was more limited and had a short-lived impact on the Japanese market. Indeed, the period 1988–1989 represented a period of extraordinary growth on the Nikkei Stock Average ([Johnston and McAlevey, 1998](#)). The IMF ([Bayoumi, 1999:3](#)) places the bursting of the asset price bubble in 1991.
7. The IMF notes that, despite some signs of recovery in 1996, the Japanese economy continued its recessionary tendencies.
8. Many of the larger firms in our sample may have had foreign investment replacing exports. Foreign assets, however, were less consistently reported, particularly for the smaller firms in our sample. This may introduce a bias in our results.
9. Identical results were found using a series of chow tests.

10. We thank one of the reviewers for suggesting the use of hierarchical regressions.
11. Results from intermediate steps are available from the authors.
12. For reasons of parsimony we report in [Tables 1](#) and [2](#) only the results obtained from full model estimation (regression 3). Intermediate results (regressions 2 and 3) are available from the authors.
13. Regulatory change continued to progress throughout the 1990s and beyond. Our time frame, however, captures only two distinct strategic periods, which most likely serves to attenuate the impact of these changes.

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## Author information

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### Authors and Affiliations

**John Molson School of Business, Concordia University, Montreal, Canada**  
J McGuire

**Université du Québec à Montréal, École des sciences de la gestion,  
Montréal, Canada**

S Dow

### Corresponding author

Correspondence to [J McGuire](#).

## Additional information

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## Appendix A Means, standard deviations and correlation matrix

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See [Table A1](#).

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**Table 3 Table ta1**

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