SPRINGER NATURE Link

Log in

The persistence and implications of Japanese keiretsu organization

Article Published: 22 May 2003

Volume 34, pages 374–388 (2003) Cite this article



Journal of International Business Studies

J McGuire [1] & S Dow[2]

1217 Accesses **71** Citations Explore all metrics →

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.

This is a preview of subscription content, log in via an institution to check access.

Access this article

Log in via an institution

Subscribe and save

Springer+ from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans

Buy Now

Buy article PDF 39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

Institutional subscriptions

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

Industrial Organization | Organizational Development | Industrial Sociology | Organization and Leadership | Social Structure | Corporate History | Corporate Governance and Financial Performance in Japanese Firms

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.

References

Ahmadjian, C. and Lincoln, J. (2001) ‘Keiretsu, governance, and learning: case

studies in change from the Japanese automobile industry', Organization Science 12(6): 683–701.

Ahmadjian, C. and Robbins, G. (1999) 'Foreign share ownership and corporate behavior in Japan', Paper presented at Academy of Management Meetings, Chicago.

Aiken, L.S. and West, S.G. (1991) Multiple Regression: Testing and Interpreting Interactions, Sage: Thousand Oaks, CA.

Aoki, M. (1994) 'Monitoring Characteristics of the Main Bank System: An Analytical and Developmental View', in M. Aoki and H. Patrick (eds.) The Japanese Main Bank System, Oxford University Press: Oxford, 109–141.

Bappa, A. (2000) 'The Japanese family: an institutional logic for Japanese corporate networks and Japanese management', Academy of management Review 25(2): 409–415.

Barber, T. (2002) 'Shareholder democracy gets a bigger say', Financial Times, May 14, 2002, Survey of German Industry, p. 1.

Berglof, E. and Perotti, E. (1994) 'The governance structure of the Japanese financial keiretsu', Journal of Financial Economics 36(2): 259–285.

Bayoumi, T. (1999) The Morning After: Explaining the Slowdown in Japanese Growth in the 1990s, International Monetary Fund: Washington, DC.

Bowman, E.H. and Hurry, D. (1993) 'Strategy through the options lens: an integrated view of resource investments and the incremental choice process', Academy of Management Review 18: 760–783.

Bruce, R. (2002) ‘Rule maker set to change US tradition’, Financial Times, March 27, 2002, p. 132.

Campbell, J. and Hamao, Y. (1994) ‘Changing Patterns of Corporate Financing and the Main Bank System in Japan’, in M. Aoki and H. Patrick (eds.) The Japanese Main Bank System, Oxford University Press: Oxford, 325–349.

Caves, R. and Uekasa, M. (1976) Industrial Organization in Japan, The Brookings Institute: Washington, DC.

Corbett, J. (1994) ‘An Overview of the Japanese Financial System’, in N. Dimsdale and M. Prevezer (eds.) Capital Markets and Corporate Governance, Oxford University Press: Oxford.

Dewenter, K., Novaes, W. and Pettway, R. (2001) ‘Visibility versus complexity in business groups: evidence from Japanese keiretsu’, Journal of Business 74(1): 79–100.

Dow, S. and McGuire, J. (1999) ‘The sources and advantages of Japanese industrial organization’, Asia Pacific Journal of Management 16(1): 47–74.

Flath, D. (1993) ‘Shareholding in the *keiretsu*, Japan's Financial group’, The Review of Economics Statistic 75: 249–257.

Frankel, J. (1991) ‘The cost of capital in Japan: an update’, Business Economics 26: 25–31.

Fukashima, G.S. (2002) ‘The corporate governance debate’, Japan Times, April 9, 2002.

Geringer, J.M., Tallman, S. and Olsen, D. (2000) ‘Product and international diversification among Japanese multinational firms’, Strategic Management Journal 21(1): 51–80.

Gerlach, M. (1992) Alliance Capitalism: The Social Organization of Japanese Business, University of California Press: Berkeley.

Gerlach, M. and Lincoln, J. (1992) ‘The Organization of Business Networks in the United States and Japan’, in N. Nohiria and R. Eccles (eds.) Networks and Organizations, Harvard University Press: Boston.

Gibson, M. (1998) ‘‘Big bang’ deregulation and Japanese corporate governance: a survey of the issues’, Board of Governors of the Federal Reserve System International Finance Discussion Papers, Washington, DC.

Gilson, R.J. and Roe, M.J. (1993) ‘Understanding the Japanese keiretsu: overlaps between corporate governance and industrial organization’, Yale Law Journal 102(4): 871–907.

Guillen, M. (2000) ‘Business groups in emerging economies: a resource based view’, Academy of Management Journal 43(3): 362–380.

Hardy, M.A. (1993) Regression with Dummy Variables, Sage: Newbury Park, CA.

Harnischfeger, U. (2002) ‘Grudging moves on corporate transparency’, Financial Times, June 12, 2002, Special Section, p. 3.

Hoshi, T. (1994) ‘The Economic Role of Corporate Grouping and the Main Bank System’, in M. Aoki and M. Dore (eds.) The Japanese Firm: Sources of Competitive Advantage, Oxford University Press: Oxford, 285–309.

Hoshi, T., Kashyap, A. and Scharfstein, D. (1991) ‘Corporate structure, liquidity, and investment: evidence from Japanese industrial groups’, The Quarterly Journal of Economics 106(1): 33–59.

Hundley, G. and Jacobson, C.K. (1998) ‘Effects of the keiretsu on the export performance of Japanese companies: help or hindrance’, Strategic Management Journal 19(10): 927–938.

Hwang, L.S. and Kim, Y.O. (1998) ‘Does the ownership structure of debt and equity affect the agency costs of debt? Japanese evidence. Journal of Accounting, Auditing, and Finance 13(1): 37–67.

Ito, T. (1997) ‘Japan's economy needs structural change’, Finance & Development; Washington 34(2): 16–19.

Jaccard, J. and Turrisi, R. (1990) Interaction Effects in Multiple Regression, Sage: Newbury Park, CA.

JETRO (2001) http://www.jetro.go.jp/it/e/pub/changing2001/index.html.

Johnston, S. (1995) ‘Managerial dominance of Japan's major corporations’, Journal of Management 21: 191.

Johnston, S. and McAlevey, L. (1998) ‘Stable shareholdings and Japan's bubble economy: an historical overview’, Strategic Management Journal 19(11): 1101–1107.

Kanatas, G. and Qi, J. (2001) ‘Imperfect competition, agency, and financing decisions’, The Journal of Business 74(2): 307–338.

Kaplan, S.N. and Minton, B.A. (1994) ‘Appointments of outsiders to Japanese boards: determinants and implications for managers’, Journal of Financial Economics 36(2): 225–259.

Khanna, T. and Palepu, K. (2000) ‘The future of business groups in emerging markets: long-run evidence from Chile’, Academy of Management Journal 43(3): 268–285.

Khanna, T. and Rivkin, J.W. (2001) ‘Estimating the performance effects of business groupings in emerging markets’, Strategic Management Journal 22(1): 45–74.

Kim, H. and Hoskisson, R. (1996) ‘Japanese Governance Systems: A Critical Review’, in S.B. Prasad (ed.) Advances in International Comparative Management, JAI Press: Greenwich, CT.

Major, T. and Lebert, R. (2002) ‘A force for change in German business’, Financial Times, May 13, 2002, Section 2, p. 20.

McGuire, J. and Dow, S. (2002) ‘The Japanese keiretsu system: a comparative analysis’, Journal of Business Research 55(1): 33–40.

Morck, R. and Nakamura, M. (1999) ‘Banks and corporate control in Japan’, Journal of Finance 54(1): 319–339.

Nakatani, O. (1984) ‘The Economic Role of Financial Corporate Grouping’, in M. Aoki (ed.) The Economic Analysis of Japanese Firms, North Holland: Amsterdam, 227–258.

OECD (1998) OECD Economic Outlook, OECD: Paris.

Parker, A. (2002) ‘Conviction gives ammunition to case for reform’, Financial Times., June 17, 2002, Section 2, p. 19.

Paker, B. and James, H. (2002) ‘Japanese capital structure during a turbulant period’, Social Science Researches Network Electronic Paper Series.

Phan, P.H. and Yoshikawa, T. (2000) ‘Agency theory and Japanese corporate governance’, Asia Pacific Journal of Management 17(1): 1–27.

Prowse, S. (1995) ‘Corporate governance in an international perspective: a survey of corporate control mechanisms among large firms in the US, UK, Japan, and Germany’, Financial Markets, Institutions, and Instruments 4(1): 1–63.

Prowse, S.D. (1990) ‘Institutional investment patterns and corporate financial behavior in the United States and Japan’, Journal of Financial Economics 27: 43–66.

Prowse, S.D. (1992) ‘The structure of corporate ownership in Japan’, Journal of Finance 47(3): 1121–1140.

Rajan, R. (1992) ‘Insiders and outsiders: the choice between informed and arm's-length debt’, Journal of Finance 37(4): 1367–1401.

Ramseyer, J.M. (1994) ‘Explicit Reasons for Implicit Contracts: The Legal Logic to the Japanese Main Bank System’, in M. Aoki and H. Patrick (eds. The Japanese Main Bank System, Oxford University Press: Oxford, 231–254.

Roe, M.J., Ramseyer, J.M. and Romano, R. (1993) ‘Some differences in corporate structure in Germany, Japan, and the United States’, Yale Law Journal 102(8): 1927–1950.

Rossant, J., Ewing, J. and Bremmer, B. (2002) ‘The corporate cleanup goes global’, Business Week 3781: 80–81.

Sheard, P. (1991) ‘The economics of Japanese corporate organizations and the structural impediments debate: a critical review’, Japanese Economic Studies 19: 30–78.

Sheard, P. (1994a) ‘Bank executives on Japanese corporate boards’, Bank of Japan Monetary and Economic Studies 12: 2–67.

Sheard, P. (1994b) ‘Reciprocal delegated monitoring in the Japanese banking system’, Journal of Japanese and International Economics 8: 1–21.

Sheard, P. (1994c) ‘The Governance of Financial Distress’, in M. Aoki and H. Patrick (eds.) The Japanese Main Bank System, Oxford University Press: Oxford, 188–230.

Sheard, P. (1994d) ‘Interlocking Shareholdings and Corporate Governance’, in M. Aoki and M. Dore (eds.) The Japanese Firm: The Sources of Competitive Strength, Oxford University Press: Oxford, 310–349.

Steers, R., Shin, Y.K. and Ungson, G. (1989) The Chaebol, Ballinger/Harper & Row: New York.

Stewart, S. (2002) ‘OSC calls for US-style standards’, Financial Post, Toronto, August 20, 2002, A1.

Suzuki, S. and Wright, R. (1985) ‘Financial structure and bankruptcy risk in Japanese companies’, Journal of International Business Studies 16(1): 97–110.

Thomas, L.G. and Waring, G. (1999) ‘Competing capitalisms: capital investment in American, German, and Japanese firms’, Strategic Management Journal 20(8): 729–748.

Ueda, K. (1994) ‘Institutional and Regulatory Frameworks for the Main Bank System’, in M. Aoki and H. Patrick (eds.) The Japanese Main Bank System, Oxford University Press: Oxford, 81–108.

Useem, M. (1998) ‘Corporate leadership in a globalizing equity market’, Academy of Management Executive 12: 43–59.

Weinstein, D. and Yafeh, V. (1998) ‘On the costs of a bank-centered financial system: evidence from the changing main bank relations in Japan’, Journal of Finance 53: 635–672.

Williamson, O.E. (1991a) ‘Comparative economic organization: the analysis of discrete structural alternatives’, Administrative Science Quarterly 36(3): 269–296.

Williamson, O.E. (1991b) ‘Strategizing, economizing, and economic organizations’, Strategic Management Journal 12(Special Issue): 75–94.

Yoshikawa, T. and Gedajlovic, E. (2002) ‘The impact of global capital market exposure and stable ownership on investor relations practices and performance of Japanese firms’, Asia Pacific Journal of Management 19(4): 525–540.

Yoshikawa, T. and Phan, P. (2001a) ‘Alternative corporate governance systems in Japanese firms: implications for a shift to stockholder-centered corporate governance’, Asia Pacific Journal of Management 18: 183–205.

Yoshikawa, T. and Phan, P. (2001b) ‘The impact of ownership structure on

Japanese corporate governance', Unpublished manuscript.

Acknowledgements

The authors gratefully acknowledge the financial support of the Social Sciences and Humanities Research Council of Canada. Zied Guedri provided invaluable assistance in this research.

Author information

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

Accepted by Tom Brewer, outgoing Editor, 23 February 2003.

Appendix A Means, standard deviations and correlation matrix

See Table A1.

Table 3 Table ta1

Rights and permissions

Reprints and permissions

About this article

Cite this article

McGuire, J., Dow, S. The persistence and implications of Japanese keiretsu organization. *J Int Bus Stud* **34**, 374–388 (2003). https://doi.org/10.1057/palgrave.jibs.8400038

Received	Revised	Accepted
14 August 2000	19 February 2003	23 February 2003
Published	Issue date	
22 May 2003	01 July 2003	

DOI

https://doi.org/10.1057/palgrave.jibs.8400038

Keywords

keiretsu industrial groupings

Search

Search by keyword or author

Navigation

Find a journal

Publish with us

Track your research