Capitalism and Cultures
– Universality and Particularity of the Corporate System across Societies
by
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Distinguished Fellow, Tokyo Foundation
Professor Emeritus, The University of Tokyo
### For Whom Do Business Corporations Exist? (1991)

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**Source:** Masaru Yoshimori, “Towards the ‘Japanese-Style Corporate Governance’,” *Organizational Science, 27 (2),* 1993; in Japanese.

**Respondents:** INSEAD Graduates (US 82,83; UK 78,75; Germany 110,105; Japan 68,68.)

### If Managers Have to Cut Either Dividends or Employment, Which is Their Choice? (1991)

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A Variety of Corporate Systems.

US-UK Corporate System
⇒ Maximization of Shareholders’ Return.
= Managers as Agents of Shareholders.
◊

Japanese-German-... Corporate System
⇒ Growth & Survival of the Corporation as Organizational Entity (or as a Community of Stakeholders).
= Managers as Leaders of Organization.
◊

Other Systems (to be Seen Later).
But,
Hasn’t ‘the Globalization’ Led to the Convergence?

Not
to a Hybrid System
But
to the US-UK System
Of Shareholder Supremacy
as the Universal Norm?
“Despite [the] apparent divergence [among Europe, US & Japan], the basic law of corporate governance …has achieved a high degree of uniformity across these jurisdictions, and continuing convergence toward a single standard model is likely.”

“There is no longer any serious competitor to the view that corporate law should principally strive to increase long-term shareholder value.”
A Variety of Corporate Systems
As Late-Comers’ Effects.
Bound to Disappear as History Progresses.
Yet, History Has Not Ended, & Difference in Values Persists.

“What is important to you in your job?”
1 = not important, 4 = most important

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But, Aren’t They Merely Executives’ Subjective Values?

Then, 2008.9.15, The Lehman Shock!
The Unit Labor Cost = Total Labor Costs ÷ Real Output

Source: OECD iLibrary, Rescaled; Seasonally Adjusted
From the Lehman Shock (2008III) to the Trough of the Subsequent Downturn

% Rise of Unemployment Rate

% Drop of GDP

Source: OECD iLibrary; Seasonally Adjusted Quarterly Data;
This diagram is suggested by Professor Ryo Kambayashi of Hitotsubashi University.
? A Puzzle ?

US, UK, Korea, Germany & Japan: All Capitalist Countries Based On the Universal System of Private Property.

How Can These Seemingly Contradictory Corporate Systems (Persistently) Coexist Within the Supposedly Universal Capitalism?
Cultures?

E.g. Ronald Dore,
Stock Market Capitalism, Welfare Capitalism: Japan and Germany vs. the Anglo-Saxons, 2001;
& Many Other Scholars

US-UK Model = “Company Law Model”

vs.

Japanese Model = “Community Model”


My Respect & Sympathy with their Position, but Still Find It Within the Framework of Normal/Deviant or Universality/Particularity.
The Variety of Corporate Systems as Culturally Forced Deviations from the Legal Norm.

The Only Way to Uphold J. System Against the ‘Legal Norm’ of Shareholder Supremacy is to Resist the “Decline of Communal Ethos” or to Introduce German-like Codetermination Law.
My Theses:
The Universal Nature of the CORPORATION Itself Allows a Multiversality of Corporate Systems.

I Will Come Back to the Role Cultures Play Towards the End of the Talk.
What Do I Mean by “Multi-Versality” of the Corporate System?

What is BUSINESS CORPORATION?
A Mom & Pop Grocery Shop ≠ Business Corporation
= An UNINCORPORATED Firm, or A Textbook Firm.

The Shop Owner
The Single-Story Structure of a Textbook Firm

Owner(s)

Ownership Relation

Assets
(Apples, Oranges, etc)

Litigious Relations

Contractual Relations

Employees
Suppliers
Customers
Creditors

Plaintiffs
Defendants
A Big Super-Market Chain Inc. = An Incorporated Firm, or A Business Corporation

Assets

A Shareholder
WHY?
The Shareholder Is NOT The Legal Owner of Corporate Assets.

Who, Then, is The Owner of Corporate Assets?

The CORPORATION As a LEGAL PERSON is!
A Corporation is Not Naturally a Person, hence a “Thing”,
Yet,
“Every corporation has the same power as an individual to do things necessary or convenient to carry out its business & affairs...”

(ABA’s Rev. Model of Business Corporate Act)

“The Corporation is a Thing That is Treated Legally as a Person.”

The Corporation Has Person/Thing Duality!

It is Because of this (Mystifying) Duality the Concept of Corporation has Generated Heated Debates over its “Essence” for millennia.
A Note on “Corporate Governance”

Since the Corporation is in Reality a Mere Thing, It Must Have Natural Persons to Do Real Acts.

This is the Role of Managers

Managers owe Fiduciary Duties to the Corporation, Not to Shareholders!


But, The Present Lecture has to Skip this Topic.
Who is a Shareholder?
A Holder of a Corporate Share.

What then is a Corporate Share?
A Unit into which the Corporation as a Thing is Divided; Can be Owned Piece by Piece & Traded Separately from Corporate Assets. (The Share Market is the Market for Shares.)

A Shareholder is the Owner of (a Unit of) the Corporation as a Thing.
The Business Corporation Has Two-Story Structure.
When We Focus on Upstairs
⇒ The Corporation Appears Only as a Thing Owned by Shareholders.
⇒ Shareholder Supremacy

When We Focus on Downstairs
⇒ The Corporation Appears Only as a Person Controlling Corporate Assets & Organization.
⇒ Organizational Autonomy (or Community of Stakeholders)
We Can Go Further.

There are Legal Mechanisms that Can Turn a Corporation or a Set of Corporations Into a

(1) Mere “Thing”,
(2) “Pyramidal System”,
(3) Full “Person”.
(1) Turning the Corporation into a Mere “Thing”.

A Person or a Group Owning 50%+\(\alpha\) Shares Becomes a *De Facto* Owner of Corporate Assets.

\[\Downarrow\]

2nd Floor Invades 1st Floor.

Or, Mere Threat of Hostile Takeovers May Discipline Managers to Max. Share Values. (=Market for Corporate Control)
(2) Building Up a Pyramidal System

Corporation as Person/Thing Duality

A Corporation as a Person Can Own & Control Another Corporation as a Thing!

‘Holding Corporation or Company’

A Chain of
A Corporation Holding Another Corporation Holding Yet Another Corporation & So On.
A “Pyramid” of Ownership & Control

50+\(\varepsilon\)% Ownership
(Majority Votes in Meeting; In Practice, 1/3 is enough)

100% Control

1B$ + N Layers

Control of \(2^{N-1}\) B$ Capital.

Enabling Dominant Shareholders to Amass Large Capital & Diversify Their Business.
(3) Turning a Corporation into a Full “Person”.

Uroboros
(a). Self-Ownning Corporation

The Corporation as a Person Can OWN ITSELF as a Thing, & Become a Self-Controlling Subject, at least in Theory!

Most Countries, however, Treat Self-Owned Shares as Treasury Shares (i.e., Locked in during Shareholder Meeting).
Drawing Hands by M.C. Escher
(b). Mutually Holding Corporations

But, Still Legal Limits on Cross-Shareholdings: E.g. Japan (& U.S.):
- 5% Rule for Financial Corporations.
- Subsidiaries Cannot Own Shares of Parent Co.
(c) Cross-Shareholding Among 12 Corporations

A Solution to 5% Rule:
\[ 5\% \times (12 - 1) = 55\% \geq 50\% \]

Complete Separation of Ownership and Control.

Encouraging Employees to Accumulate Organization-Specific Skills, Know-hows, etc.
But,
Aren’t These Nice Pictures
Nothing But
Fanciful Scribbles of
An Armchair Theorist?

⇓
Reality Check.
(1) US-UK Corporations as Mere Things. 

Active M&As Have Turned their Stock Markets into Markets for Corporate Control.

Source: Jackson, Gregory, and Hideaki Miyajima. "Varieties of capitalism, varieties of markets: mergers and acquisitions in Japan, Germany, France, the UK and USA." Varieties of Markets: Mergers and Acquisitions in Japan, Germany, France, the UK and USA (June 2007) (2007).
(2) Pyramidal Ownership & Control System of Present-Day Korean Chaebol (LG)
Pyramidal Ownership & Control System of Italian Family Empire (Fiat 1996)

Source: Marcello Bianchi, Magda Bianco, and Luca Enriques. "Pyramidal groups and the separation between ownership and control in Italy." The control of corporate Europe (2001)
Pyramidal Ownership & Control System of Pre-War Japanese Zaibatsu (Mitsui Zaibatsu 1937)

Source: Takahashi Kamekichi & Aoyama Jiro, Japanese Zaibatsu, 1938
### (3) Personification of Japanese Corporations by Cross-Shareholdings (Mitsui Group 1993)

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Cross-Shareholdings of German Corporations 1996, 2010
There are Other Ways to Strengthen Organizational Autonomy.

(1) Family-Owned Corporation
(e.g. Suntory, Kajima, Suzuki, etc.
Cf. Mehrotra, Morck, Shim & Wiwattanakantang, JFE 2013.)

(2) Managerial Buyouts,
(e.g. World, Sunstar, Gento-sha &c.)

(3) Class Shares
(e.g. J: CYBERDYNE;
US: Google, Facebook, Berkshire Hathaway),
etc.
Not Only

(1) US-UK Corporate System of Shareholder Supremacy,
But Also

(2) Korean, Italian, …, Prewar-Japanese System of Pyramidal Ownership & Control &

(3) Postwar Japanese & German System of Organizational Autonomy through Cross-Shareholdings, &c.

Are “Equally Universal” Corporate Systems!
The Corporation’s Person/Thing Duality Connects TWO Ownership Relations, thereby Allowing the Universal CAPITALISM (or the Universal Private Property System) to Have “Multi-Versal” Corporate Systems.
It is this Intrinsic Multi-Versality of the Corporate System (Not the Shareholder Sovereignty!) That Has Enabled Business Corporations to Play the Central Role in Capitalistic Development.
Selecting a Corporate System

Each Economy, Each Industry & Each Firm Has Selected (& Will Select) One of these Corporate Systems

↑

On the Basis of
Historical Legacy,
Economic Efficiency,
Social Structure,
Political Ideology,
Academic Dogma &
Cultural Tradition.
How Cultures Play their Role in the Selection of Corporate System.

An Example:
GHQ of the Occupation Army
Ordered the Resolution of Japanese Zaibatsu
in 1945-47

Freed Families’ Shares to the Public,
Dissolved Holding Corporations,
Purged their Directors,
Divided Large Corporations,
&c.
GHQ’s Intention
Democratization of J. Corporate System.
An Idealized US-UK System.
What Actually Emerged was “Japanese-Style” Democratization of the Corporate System!
What are the Forces that Moved Postwar Japanese Corporations to the So-Called “Japanese” System?

(a) Postwar Heavy Industrialization (Late-Comer’s Advantage),
(b) War-time Control Economy (Corporatism from above),
(c) Setback of Postwar Reforms Due to the Onset of the Cold War,

(x) Cultural Tradition
The Ōmotokata System of Mitsui Merchant House in Japan, 1730.

Ōmotokata (≈ the Foundation)
First Established by Mitsui in 1710 &
Adopted by Other Houses During Tokugawa Period
The Pre-modern “Holding Corporation”.

Original Source: Nishikawa Noboru, Mitsui-Ke Kanjo Kanken, 1963
In contrast to Korean or Italian ... System where the Family Head Commands the Whole Business, at Omotokata All the Family Members Pooled their Entire Assets, Received Only Pro Rata Dividends & were Never Allowed to Withdraw their Shares.

Management was Left to Bantos (Managers). De Facto Separation of Ownership & Control.

Japanese Family ("Ie") System.
“Ie” (家 ≈ Family or Household) A Collectivity Transcending Family Members & Perpetuating Itself for Eternity.

The Imperative of the Family Head (“Tōshu” ≈ The Current Caretaker of the Ie) is the Perpetuation of the Ie, Not Necessarily his Blood Lineage. (Hence, the Prevalence of Adult Adoption in Japan.)

The “Ie” was the True Owner of Ōmotokata.
The Ōmotokata System Survived Until 1945! (Though Transformed into Holding Co. in 1909)

The Zaibatsu Resolution Merely Brought Out J. Corporations’ Cultural Tradition of the Separation of Ownership & Control & Even Encouraged Them to Fortify It through Cross-shareholdings & other means.
How the Traditional Family System of Other Societies has Affected the Historical Path of their Corporate System, Esp. at its Critical Junctures, Is Yet to be Explored.

For Example,

Korea’s Patrilineal Stem Family System with Hiving off. ⇔ Korean Chaebols During the Asian Currency Crisis.


Germany’s ..... ⇔ Postwar Reforms, Hertz Reforms ..
<SUMMING UP>

Two Conventional Views on the Variety of Corporate Systems

Late-Comer’s Effects     Deviations by Cultures

In Spite of their Apparent Opposition, Both Views Share the Same Norm/Deviant or Universality/Particularity Perspective on the Corporate System, more generally, on Capitalism.
What I have Demonstrated is the Intrinsic Multi-versality of the Corporate System Itself, or more generally, of Capitalism Itself.

The Role Cultures Play is that of the Force of Deflection Deciding a Particular Path the Capitalism Follows at Critical Junctures of its Path-Dependent History.
Capitalism and Cultures. ⦿
Beyond Universalism/Particularism. ⦿
History Matters!
This Talk is Based Partly On:


