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Japanese Corporate Management Style Today

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Abstract

The structure of industry, distribution and ownership in Japanese economics and business management has changed.

We have been in a period of creative value. Today the situation for Japanese social infrastructure investment has become very favourable.

Japanese companies have paid attention to stakeholders, have collaborated with Asian developing countries, and have worked in cooperation with small business in Japan and East Asian countries.

They have taken responsibility and created a long-term vision of management, social contribution, symbiosis with small business and risk management to provide safety and security.

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1.Shareholders value management from Japanese styled management

a. What was Japanese styled management and business finance ?

This is the Business Finance - Main Bank System and Interlocking shareholding.

Japanese styled management, especially Japanese business finance is Main Bank System and Interlocking shareholding.

The concept of the Main Bank System, which is called "Keiretsu-Yushi" in Japanese, is that the lending is not related to the whole or in general, but to the partial and special between financial institutions and industrial or trading companies.

The member companies of each Group raise huge amounts of money from financial institutions, especially banks in the same Group.

The borrowings of the Group member companies greatly depend on the loans of banks in the same Group, and very little on loans from banks in other Groups.

When we look at Keiretsu-Yushi with regard to the lending banks, the Group financial institutions lend principally to the member companies of the same Group. And they establish different between Group member companies and others.

Each of the Group financial institutions acts as a main banker for the companies who are members of the same Group.

It is necessary to describe the functions of Keiretsu-Yushi. In the period of high economic growth and business expansion, the important function of Keiretsu-Yushi for corporate financing was that the city trading banks supplied huge amounts of constant and inexpensive funds and controlled the member companies in the same Groups. But the more important function was that the city trading banks laid the foundation of conciliatory loans as other financial institutions toed the city trading bank line, making use of Keiretsu-Yushi as if priming the pump.

The Group member companies could borrow large, constant and cheap funds from not only the city trading bank, but also the other banks. And, in addition to these functions of availability, liquidity and profitability on Keiretsu-Yushi, as regards control-stability, the Group member companies could continue to rely on borrowings from the banks without giving consideration to an infringement and management right.

Breakdown of the Main Bank System, Keiretsu- Yushi by the collapse of the bubble economy.

After the Second World War, the group of families which controlled Japanese economics, known as the Zaibatsu were disbanded in line with the Occupation Policy. All the shares which the families owned were confiscated and then sold out to employees and the investing public by Occupying Force.

But the large corporations which the Zaibatsu had affiliated in the pre-war period again concentrated their shares by means of interlocking shareholding.

And so the Zaibatsu re-appeared in the form of the Groups Each of the new Groups was linked by a cooperative arrangement of Interlocking shareholding, formed by passing through the following four stages:

1) In the recovery period, the Group financial institutions acquired the shares, which had been bought by employees and the investing public in the process of the Security Democratic Campaign, and had been given up cheaply by a fall of stock prices in the depression of 1949.

2) In the period of high economic growth from the mid-1950's through to the mid-1960's, the Group industrial companies had rapidly expanded their scale of business. Capital increase for expansion funds was too rapid and large for individual shareholders, most of whom could not afford to buy the shares issued. These were acquired largely by financial institutions, who were accepted by the Group companies as the leading shareholders. The remaining shares were acquired by industrial and trading companies of the same Groups.

3) Under the liberalization of capital investment in around 1965, Interlocking shareholding was remarkably speeded up because the Group member companies had maneuvered the expansion of a stabilizing force in their shareholding as a countermove to take over by foreign Big businesses.

4) In the low economic growth period from the mid-1960's, the Group member

companies bought shares speculated using overfunds, which were formed because their equipment investment became sluggish. At the same time, they owned the shares between them and so were able to get large premiums at the current market issuance by the manipulation of stock prices.

Interlocking shareholding broke down due to the collapse of the bubble economy.

Why have the main bank system and interlocking shareholding collapsed ?

In the late 1980s the Japanese government and the Bank of Japan adopted a policy of stopping the supply of money and increasing the interest rate to stop prices rising. This policy means that the rise of share prices, land prices and commodity prices stopped. Inflation led by the Plaza Agreement with the US in 1988 changed.

Japanese city banks have issued large number of shares to achieve an eight percent equity ratio, as required by BIS regulations. At first they achieved this 8% target by way of increasing profits. But they were unable to increase capital because economic and business conditions deteriorated.

Then share prices fell drastically. Japanese city banks made huge losses as share prices fell. They all sold many shares to other banks to improve financial conditions. Furthermore this selling of shares reduced share prices even more. Many shares were bought by American and English institutional investors at cheap prices.

So Japanese big banks had non-performing loans because of reductions in share and land prices.

Firstly banks took back the money from non-performing loans themselves. But this is very difficult for political, economic and money-management conditions. The Japanese government injected large supplies of capital into banks.

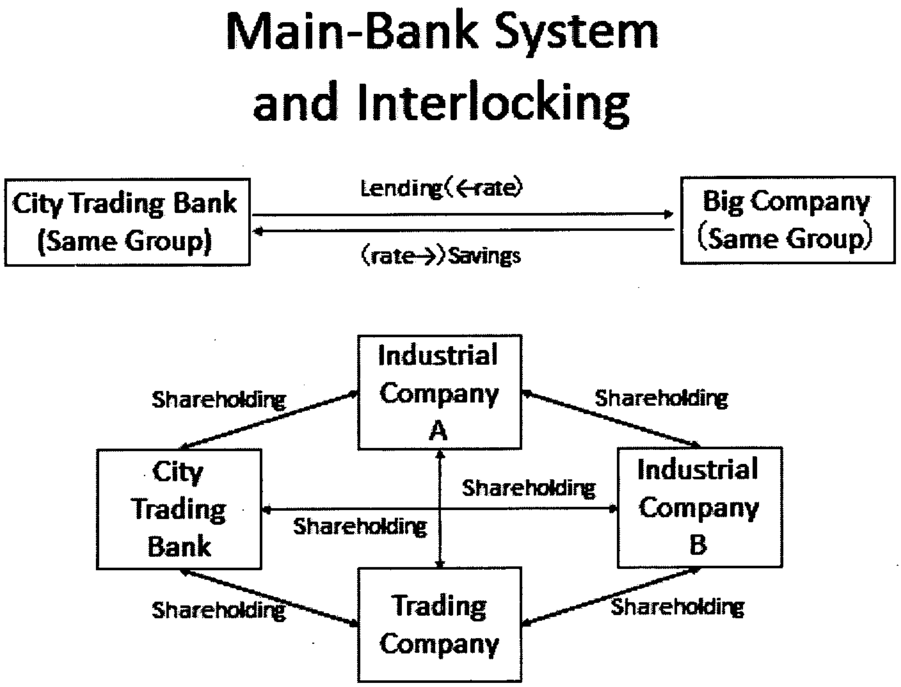
Non-performing assets were sold to European and American funds, especially restructuring funds. And then land and shares were bought by American and British funds.

The Japanese main bank system and interlocking shareholding had collapsed.

Figure 1 Changing Management Style

Years, Period	US & Europe: from 1880s Japan: from 1995	Up to 2008	2009 onwards
Management style	Expansion of management scale, Increasing assets, sales, Profits	Shareholders' Value Management	Creating shared value management
Main shareholders	US & Europe: individuals Japan: banks / trading companies / manufacturing Companies	Institutional investors (UK,US Institutional Investors)	Institutional investors, especially public sectors
Goal of Management	Growth rate & Market share	Stock price growth based on high ROE	Corporate and social value
Method of Management	Expansion of Sales of assets, profit	Selection & concentration	Seeking additional high value products
Innovation	Diversification & Globalization	Cash management & EVA management	Real sales to virtual net sales
Management Power	Evaluated by Growth rate	Evaluated by Stock Market	Evaluated by Socal contributions

Figure 2

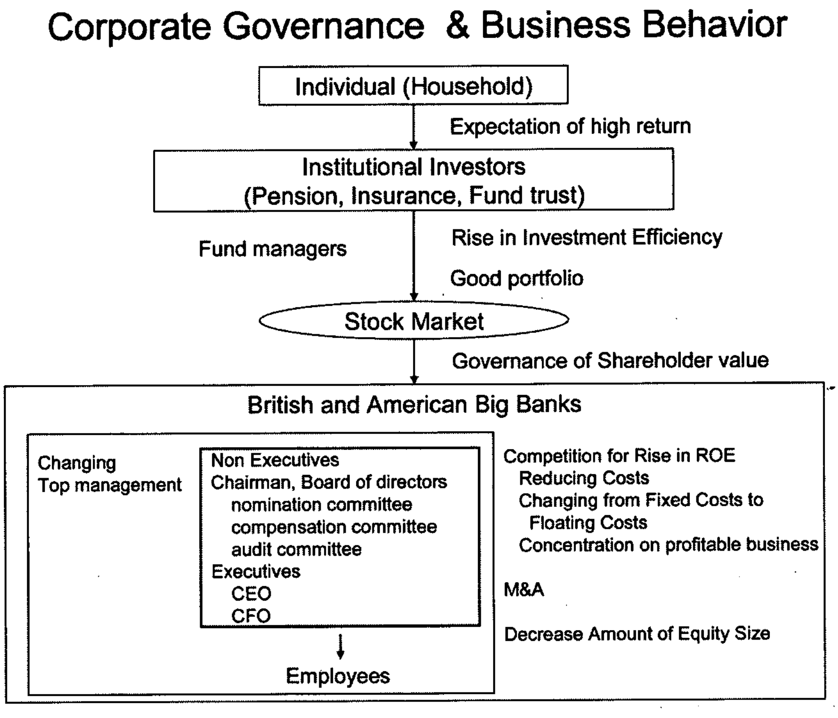


b. Breakdown of Japanese styled management by the collapse of the bubble economy

The goal of big Japanese banks and companies has been the maximization of total shareholders return.

In the 1990s and until 2007, they sought the maximization of shareholder return. The definition of shareholder return is the total benefit of dividends plus profits from sales of shares. If share market conditions are good, dividends become smaller. But if stock market conditions are not so good, dividends become bigger. Dividends and benefits from share sales depend on ROE at management level and ROE is the result of shareholder investment profitability. The CEO makes efforts to increase ROE.

Figure 3



This diagram shows the business-behaviour and management organization of big Japanese banks and companies on the maximization of total shareholders return.

In some cases institutional investors appoint a fund manager to obtain a good portfolio and profitable investment through the stock market and to invest in them.

In big banks and companies there is a board of directors. The chairman organizes some committees. The nomination committee recommend and check directors and executives. The compensation committee advise on directors' and executives' salaries and benefits. The audit committee check the accounting and management.

The CEO and CFO are on the board of directors. They organize the management committee. Executives control and manage employees. The CEO has to increase ROE by cutting costs, switching from fixed costs to current costs and specializing for profitability. In the second stage the CEO checks the scale of capital. In the third stage the CEO seeks opportunities for M&A because they are very good for rapid growth.

But if the CEO is unable to increase profits, the Board of Directors will change top management.

The goal of big Japanese banks and companies has been the maximization of total shareholder return. This is measured by both dividends and growth in share prices. The pursuit of dividends and growth in share prices is based on increases of ROE, which are based on the growth of earnings. This in turn is based on the increase of sales and control of costs.

One way to increase ROE is to increase revenues, to cut purchasing of materials and products, to cut management costs especially labour costs and to reduce depreciation costs. Another is to decrease equity as a denominator.

c. Breakdown of shareholders value management by the Lehman Shock

The Financial Crisis happened in 2007. Lehman Brothers went bankrupt on September 15th 2008. It sparked worldwide financial crisis. The Stock market in Japan fell to 6,000 yen.

As soon as the risk of the sub-prime loan came to the surface, the special purpose companies went bankrupt and bank assets changed from good to bad loans. Big banks were shocked by the change to bad loans, especially RBS and Lloyds TSB, who had been pursuing a rapid growth rate through a management strategy of mergers and acquisitions.

Therefore BIS regulations have not allowed bank management to keep their banks in good shape. We think this is particularly important for risk management of bank assets. Bank assets should come from operating cash flow. If assets do not come from cash flow, the assets revert back to customers or creditors.

The capital ratio is not important for good bank management. We think sufficient capital reserves are important for risk asset management.

Management policy is changing. We can see some elements of economic profit and EVA (Economic Value Added) but it introduces a balanced scorecard. The new policy covers not only shareholders but also customers, employees and the public. It also reduces the importance of shareholder return.

Companies are starting to pay attention to stakeholders and to think about social problems, which means poverty and the natural environment. We can point out one example.

Citi, who is considering a microfinance service for Hong Kong's poor to start their own businesses. We think this is a very good idea, to pay attention to people.

And some companies are reducing CO2 emissions. By this action the company shows awareness of the natural environment

This diagram shows harmonized and circulated management. It is different in the following ways:

The customer, subsidiaries and employees are included.

The government take tax from individuals and households. Then they introduce ongoing training and development and unemployment benefits. The unemployed try to get back into the workforce.

The banks and companies pay attention to customers, subsidiaries and employees. In addition they take into account the natural surroundings and social surroundings. We call this management style harmonized and circulated management.

Figure 4

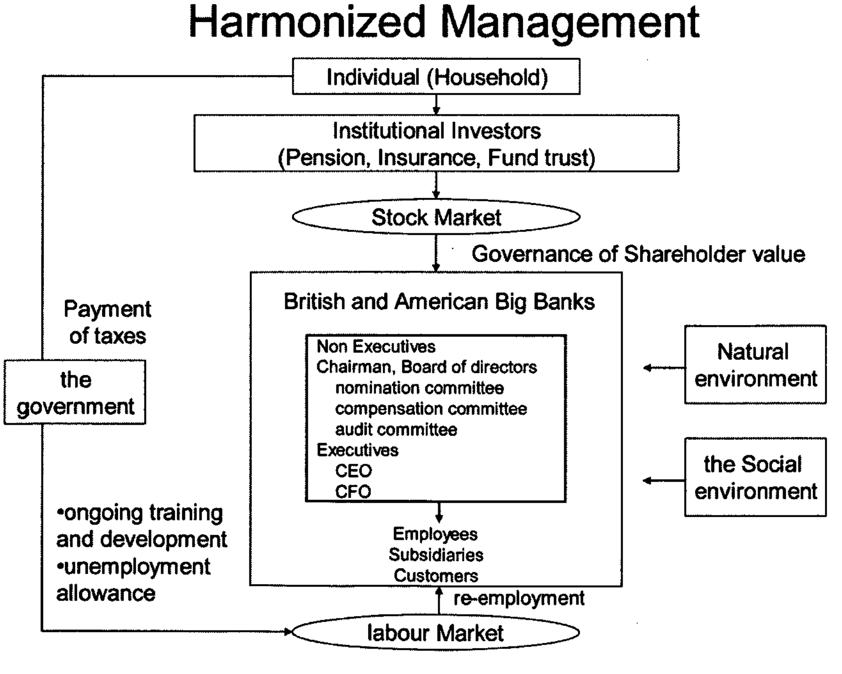


Figure 5

Toshiba's Creating Shared Value Management

Stake-holder	2011 distributed amount (hundreds of millions of Yen)	2010 distributed amount (hundreds of millions of Yen)	How to calculate
Trading companies	58,936	61,582	Costs of Sales, costs of administration and marketing multiplied by
Employees	2,933	2,700	Average salary number of employee
Share-holders	370	176	Dividend on cash flow
Creditors	318	323	Interest paid to bank
Government	650	407	Tax
Society	30	30	Social contribution costs
Surroundings	547	552	Original calculation
Company itself	441	1,294	Profit minus dividend

(Source)Toshiba CSR Report
(http://www.toshiba.co.jp/csr/jp/engagement/report/pdf/report12_all.pdf)

Several conclusions can be drawn.

Firstly, excessive pursuit of shareholder return has destroyed good financial systems. So big banks and company management should pay attention to stakeholders. Governments should introduce global regulations for the pursuit of shareholder return.

Secondly, bank asset management focuses on profitability and avoiding risk. The financial authorities should seek drastic changes to BIS regulations from the point of view of good financial systems.

We think the government should control high ROE management and high shareholder returns.

The principle of the maximization of shareholder return is giving way to a socially-conscious and nature-conscious management style : Circulated Management.

Big companies need to be in harmony with society and nature.

d. Revival of Mega-Banks, Interlocking shareholding as strategy management

Japanese mega-banks went overseas, at first to America and European countries. American and European banks have reduced their business, selling off branches and subsidiaries because of the European financial crisis, which has continued. So they scaled down the size of their business. Some of these branches and subsidiaries were bought up by Japanese mega-banks.

Then Japanese banks leaders buy Asian banks and collaborated with Asian big banks because the Asian economy has developed and an expansion of business opportunities is expected in the near future. According to the newspaper, the project finance ranking of banks has Japanese banks at 1, 2 and 3.

We can find out the characteristics of shareholdings rankings. Japanese big companies' shareholdings rankings are led by trust funds of Japan Trustee Bank and Japan Master Trust Bank. Japan Trustee Bank's major shareholders are Mitsui Sumitomo Trust Bank. Japan Master Trust Bank's main shareholder is Mitsubishi UFJ Trust Bank. The Mitsubishi UFJ Financial Groups is owned by Mitsui Sumitomo and Mitsubishi UFJ.

Those trust banks are controlled by mega-banks' management. However the total shareholdings ratio of foreign investors has recently increased. Today they own 30-50 % of shares of Japanese big companies. Japanese investors and Japanese trust banks hope for moderate management and appreciate lower profit rates from small risk management. However foreign investors expect high profits on short-term investments. And so the two types of investors have conflicting management attitudes. Japanese business leaders have been in strict and serious positions and under pressure.

2. Harmonised management and creating value management from shareholders value management

a. Socialisation of industry

Socialisation of Industry has clearly existed in the change from harmonized management to creative value management.

As a result of the development of social infrastructure businesses, the relationship among the industries has strengthened. For instances, the electric automobile industry depends on the electricity and automobile industries together. And also in the Shinkansen business, railway companies and heavy industrial companies depend on each other.

In many infrastructure areas, extensive cooperation of some kinds of companies has developed.

We call it "Socialisation of Industry".

b. The impact of information technology

The Socialisation of Industry has been supported by the impact of information technology.

The development of information technology can be recognized in the skill in each industry. Mathematical precision is not only needed in high level calculation in each industry, but also in the network of cooperation among industries. Professor Surin Pituhan called this high level of information networking "Soft Power" at a symposium at Meiji University. This soft power has supported the social infrastructure business in Japan.

c. Corporate ownership, "trust" companies, about which it is hard to obtain details

We are also interested in the socialization of corporate ownership, as well as the socialisation of industry in the period of creating value management.

Today main shareholders are institutional investors, especially using reliable assets, and thus they turn over security. We call this Azukari Shisan.

The goal of Azukari Shisan is the pursuit of profit, and at the same time the pursuit of turning over security that avoids risk. It means that the goal of trust companies is both profitability and stability. They do not seek high risk or profit, but long and stable profit.

Social infrastructure businesses are very good for Azukari Shisan to invest in the creative value management.

Then social infrastructure businesses are supported by Azukari Shisan funds.

d. Systematic and collaborative management styles

Social infrastructure businesses, supported by the socialization of industry and ownership, seek the systematic and collaborative management styles.

The businesses do not hope to exclude certain nations or stakeholders, put to collaborate them. Then they would like to develop efficient management systems and high level technology.

3. Creating value management and Japanese social infrastructure

a. Pursuit of corporate value and social value

Advanced Japanese main companies have gradually shifted from shareholder value management to harmonized management, which pays attention to stakeholders. Recently they changed from harmonized management to creating value management. This is the pursuit of corporate value and social value at the same time. Creating value management is quite different from harmonized management. Harmonized management pays attention to stakeholders partly and temporarily. On the other hand creating value management is a set of corporate and social values. For instance, Nissan Automobile Company has developed and put on an electric-powered automobile the market worldwide. This case means a reduction in CO2 to maintain the environment. At the same time there has been an expansion of automobile sales which fits with their pursuit of corporate profit. The management of Nissan is creating value management, pursuing both corporate value and social value.

This creating value management is difficult to realize in all industries and businesses but the social infrastructure business is very good for pursuing creating value management. For example, traffic systems are a kind of social infrastructure. Building up and maintaining a high-speed road network is effective in providing benefits for people in developing countries. The development of urban systems is creating a better environment for people living in cities by building and maintaining new housing, sewage systems, parks, electricity supplies and running water.

Today's major corporations have pursued corporate and social value but have not pursued creating value management at the expense of shareholder value. Corporations targeted shareholder value first, with creating value management an afterthought. Therefore corporations may give up pursuing social value if they are unable to get shareholder value. So the base and background of creating value management is very weak. Top management have been asked to maintain an attitude which will keep social value.

Figure 6

Top10 Shareholders of Mitsubishi UFJ Financial Group

	Mitsubishi Bank 1987/3/31 Number of Issued Shares 2,323,528,000		Tokyo Mitsubishi Bank 2001/10/31 Number of Issued Shares 4,675,455,000		Mitsubishi UFJ Bank 2012/10/31 Number of Issued Shares 14,158,585,000	
Rank	Name of Shareholder	Rate (%)	Name of Shareholder	Rate (%)	Name of Shareholder	Rate (%)
1	Meiji Life Insurance	6.1	Meiji Life Insurance	4.9	Japan Trustee Services Bank Account	6.2
2	Tokio Marine & Fire Insurance	4.6	Nippon Life Insurance	3.6	The Master Trust Bank of Japan	4.6
3	Dai-ichi Life Insurance	4.0	Sumitomo Trust Bank Account	2.7	SSBT Omnibus	2.6
4	Mitsubishi Heavy Industries	3.5	Tokio Marine & Fire Insurance	2.6	Nippon Life Insurance	1.9
5	Nippon Life Insurance	3.4	Dai-ichi Life Insurance	2.5	Japan Trustee Services Bank Account	1.8
6	Taiyo Life Insurance	1.9	Mitsubishi Heavy Industries	2.0	State Street Bank and Trust	1.6
7	Mitsubishi Corporation	1.9	Mitsubishi Trust and Banking Corporation Account	1.6	The Master Trust Bank of Japan(Meiji Yasuda Life Insurance Account)	1.2
8	Mitsubishi Trust and Banking Corporation	1.6	Taiyo Life Insurance	1.3	The Chase Manhattan Omnibus Account	1.2
9	Nippon Steel	1.6	Hero and Company	1.1	Bank of NY Depositary Receipt Holders	1.1
10	AGC	1.5	Mitsubishi Corporation	1.0	Toyota Motor	1.0
	Ratio of Foreign Shareholding		Ratio of Foreign Shareholding	11.9	Ratio of Foreign Shareholding	31.6

(Source)Kaisha-Shiki-Hou, Toyou Keizai Shinpou-sha, 1987, 2001 and 2012.

b. The characteristic of social infrastructure

Today the situation for Japanese social infrastructure investment has become very favourable. Japanese heavy industry companies, electronics companies and information systems companies, e.g. Hitachi, Toshiba and Mitsubishi, have moved into Asian countries and invested in the social infrastructure in those countries. The big Japanese banks should offer financial support to such companies.

c. Collaboration and co-operation with small and medium-sized companies

In the social infrastructure business, Japanese small and medium-sized companies have also moved into such countries. But these smaller companies do not have large amounts of money at their disposal. Smaller Japanese banks should also offer financial support to the smaller companies.

In that case we have two issues. Firstly, local banks can not offer large sums of money to support companies. Secondly, as a result of this, smaller companies do not have enough money either and so smaller Japanese companies should make contact with Asian companies and make arrangements for co-operation in research and development for their social infrastructure technology.

d. Collaboration and co-operation with NPOs

Both big and small companies should offer social value. But while seeking social value, it is very difficult for companies to spend so much money because corporate social responsibility needs financial and human resources. And so we would like to advise collaboration and co-operation with NPOs, which have good ability and technology which helps them contribute to solving social and natural problems. For instance, in the area hit by the tsunami of March, 2011, people should receive support not only from NPOs but also from companies. Big companies, including Kao, Ajinomoto and Sonpo-Japan, have sent staff to those areas but these people do not have skill or knowledge. And so NPOs can support staff sent by companies. Therefore we think companies and NPOs need to work more closely together. Company staff have good skill in accounting, marketing and management.

An NPO started discussions and making arrangements with Kao, Ajinomoto and Sonpo Japan. And also Mitsui Bussan donated large sums of money to twenty or thirty NPOs. But financial support, while useful, is not enough. We hope to see personal support, closer relations and sharing of skills and knowledge in reconstructing Tohoku.

In Britain and the USA, some students take jobs in NPOs- after their graduation. After working in NPOs they then move into business and work for companies. According to the newspaper, their salaries are the same in the NPO as they are in the companies. In Europe, contribution culture has developed much more compared with Japan. Japanese NPO salaries are half of what one would earn in a company, because the Japanese people donate less money to NPOs. And so young Japanese people have no ambition to work for NPOs. In the U.S.A., "Teach For America" support by sending teachers to areas in the U.S.A where there are no schools. This NPO is the most popular among younger people.

4. New version of Japanese management style-beyond 2050- long-range planning

a. Pay attention to stakeholders

We would like to talk about what we feel is an appropriate Japanese management style for the near future.

Firstly we should pay attention to stakeholders. Before the Lehman Shock we paid attention to just shareholder value management and neglected employees, subsidiaries and small business partners. Workers saw their salaries reduced or were dismissed. And then subsidiaries and small business partners reduced their prices. But such business behaviour after the Lehman Shock has been criticized by workers, subsidiaries and small business. For instance, in the USA and England younger people and workers demonstrated and attacked the premises of banks and other companies.

We think that if the distribution of business profit among stakeholders is unfair, the government should redistribute economic profit at national policy level. If the distribution is unfair at the national level, there should be redistribution of economic profit at the international and global levels.

Then we should pay attention to social problems and surroundings. Corporations should pay contributions towards solving social problems, for instance, helping refugees,and underprivileged children as a feature of corporate social responsibility. Also policy needs to be set up to maintain the environment, to reduce CO2 and greenhouse gases.

b. Globalisation and co-operation with new developing countries

Secondly we think it is important that developed nations and developing countries co-operate. Japanese big companies go to China and Asian countries. This means they have the opportunity not only to take advantage of cheap labour costs and to sell their products, but also to contribute to the improvement of social infrastructure in developing countries, which provides convenience for local people in many ways: improving roads and ports: developing traffic and sewage systems; improving the electric power grid using renewable energy; building information and communication systems.

Companies from China and Asian countries have already caught up in the fields of automobiles and electrical goods. But it has not been possible for them to catch up in the fields of industry, traffic and urban development. So companies from developed countries should support them and co-operate in such fields.

c. International collaboration in the area of small businesses

Thirdly, we would like to see international collaboration with small businesses.

When big companies move into China or Asian countries, small business management behaviour can be divided into two types. Strong small businesses go to Asian countries along side big companies. But weakly-managed small businesses remain in Japan and miss out on trade with big companies and do not survive. But this phenomenon is the same under shareholder value management. They should look to survive by collaborating with Asian small businesses. Small businesses remaining in Japan need to look for a way to survive by supporting the economy in their local area.

On the other hand, Asian small businesses should support their local economy by co-operating and collaborating with Japanese big and small businesses.

Under creative value management long-range planning beyond 2050, big companies, local companies and Japanese small businesses should work together develop each country's economy.

d. Long-term management, social contribution, symbiosis with small business, risk management

Lastly, big companies and small businesses need risk management. Japanese big companies and small businesses take big management risks by going to China and Asian countries, for instance, territorial problems between China and Japan; floods in Thailand and Indonesia. From the view of risk management, Japanese companies diversify by moving into several countries at the same time. This however is a short-term strategy. But long-term management of Japanese companies would be steady and would contribute to local areas and maintain the surroundings. Such behaviour would help Japanese companies build relationships and trust with local people.

But it is very difficult to make relationships and develop trust with local people. So companies need to co-operate with NPOs. NPOs are able to support and have experience supporting and maintaining the surroundings and helping underprivileged people. So companies who co-operate with such NPOs can contribute and support local areas. With long-term risk management, companies co-operating and collaborating with NPOs can make social contributions and maintain the surroundings as part of their corporate social responsibility.