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An Anatomy of the "Corporate-Group-View"

Firms and Industrial Organization in Japan (6)

by

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[Any comment, advice, suggestion, and question is very welcome. But, please not quote.]

Chapter 7. An Anatomy of the "Corporate-Group-View"[1]

7-1. Introduction

In this chapter I focus not on Japanese corporate groups but on the corporate-group-view. The purpose is an empirical study neither of corporate groups nor of the corporate-group-view, but an anatomy of the latter.

Corporate groups, especially "Six Major Corporate Groups" such as Mitsui Group, and Mitsubishi Group, are often called (Horizontal) Keiretsu and regarded as the symbol of the "peculiarity" of Japanese economy and its closedness. Each group member is thought to be gigantic, and the total of such groups is understood to dominate Japanese economy.[2] Therefore, the "Japan Inc. view" charms the public. However, each group member is not so large and small business dominates Japanese economy. Thence, the total of corporate groups cannot dominate it. As shown below, the corporate-group-view is based on a specific view of financial market, and the Mainbank-view, adhesion relationship in the loan-concentration view, and the dual-structure-view are almost the same. Read the preceding chapters, especially chapters 5 and 6, for an empirical study of corporate groups, and a reader who has read them must realize that the corporate-group-view is also wrong, and has to pass through this chapter.

The purpose of this chapter is an anatomy, which is, therefore a chapter of the least value in this volume for readers, including most economists, I believe, who are interested in functional analysis. The main questions are anatomical or archaeological: what the corporate-group-view is? when and how did it appear? why it was accepted and has been supported

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[1] This chapter is a revised version of chapter 7 of Miwa[1990].

[2] For instance, Nakatani[1984, p.227] begins his "The Economic Role of Financial Corporate Grouping" with the statement: "One of the most peculiar aspects of Japanese industrial structure is that the majority of Japanese firms belong to so-called inter-market business groups - kigyo syudan or keiretsu affiliations within which firms are linked through reciprocal shareholdings, and lender-borrower and buyer-seller relations."

by the public?[3] What follows will satisfy the same kind of reader's interest on Mainbank, adhesion relationship, and the dual-structure-view, which are so closely related to the corporate-group-view.

An anatomy of the corporate-group-view is not an easy task for three points: (1) There is a wide variety of views, and I have to choose and define the corporate-group-view for an anatomy; (2) Each view is not clear enough to be compared and tested empirically. Difference between views has often created controversy, which, however, rarely was profound and productive. When I choose one, it is not easy to understand what it is; (3) Most views are not based on functional analysis, and it is not easy to understand why and how the view and "analytical" conclusions are drawn. Like the study of "adhesion relationship" in 5-4, it lacks in such microeconomic interest as to ask, "Who wants it and what for?" and to examine the consistency of the view. I choose Miyazaki[1976] as the representative of the corporate-group-views. Nobody will challenge the choice, since Miyazaki[1962] Professor Yoshikazu Miyazaki has been a creator, the most influential promotor, and the champion of the view, and Miyazaki[1976] is a compilation of his works on the corporate-group-view. Note that this chapter is neither a review of the views nor an empirical study of Japanese corporate groups.

Section 6-2 is for an introduction to the problem. Many readers take for granted the "definition," the existence, and the important role of corporate groups, and I introduce two episodes to provoke readers' attention to the basis of their belief. In the latter half of this section, I briefly summarize Six Major Corporate Groups which are thought to be the representatives. From 7-3 to 7-7 are for an anatomy of Miyazaki[1976], and the first three sections are for the preparation. In 7-3, I examine the explanation of the basis for his Tables for corporate grouping (kigyo shudan-hyo), and introduce readers to the basic character of the corporate-

[3] How and why has so many people continually supported the view is not the question here. Recall the Japanese proverb mentioned in Introduction to Part II: One dog barks at a shadow, and hundred dogs at the voice.

group-view. In 7-4, I critically review the intention of his study, and show how and why it is unacceptable to most economists. In 7-5, I examine what Miyazaki[1976] insists to explain and how with the corporate-group-view. We find a strong statement on the importance of "keiretsu-shihai(control)-mechanism" but neither clear statement on what it is nor evidence for the importance. 7-6 and 7-7 are the core of this chapter. Like adhesion relationship, it is almost impossible to understand what the corporate-group-view is.[4] Section 7-6 is for reconstruction of Miyazaki[1976]'s view by interpretation, and I point out seven features. In 7-7, I list six basic questions to Miyazaki[1976]'s corporate-group-view. All of them are so important that a reader who recognizes even one of them as valid has to dispose of the corporate-group-view as an effective analytical concept for the study of a firm, an industry, and the economy in Japan. 7-8 is a supplementary section for three comments. 7-9 is for concluding remarks.

The purpose of this chapter is an anatomy, which does not lead to a clear conclusion. However, the anatomy is carried out on the conclusion of the preceding chapters that the corporate-group-view is wrong, and it is consistent with and supports the conclusion.

7-2. Introduction to the Problem

Two Episodes on the Corporate-Group-View

A telephone call from Fair Trade Commission (hereafter, FTC) asked Toyota, "Toyota belongs to Mitsui group. What is the ratio of intra-group trades to the total?" The manager answered to the inquiry later told me, "Frankly, I was embarrassed. The main reason why Toyota is thought to be a member of Mitsui group is that it is a member of its Shacho-kai (presidents'

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[4] The loan-concentration-view, based on a scheme, tells what occurs and insists on an interpretation of observed phenomena, however, the corporate-group-view is only a scheme. As shown below, it does not tell what occurs at all.

meeting), Nimoku-kai. But never have we minded it, and we have no such materials for the asked figure. Even if it is a member, where is the group boundary?"[5] Nippon Yusen, a shipping company which is a core member of Mitsubishi group, carries the largest share of Toyota's export cars. Note that Mitsui O.S.K. lines, the second largest shipping company in Japan, is a member of Mitsui group.

On a meeting of a study group for "the closedness of Japanese economy," we were talking about "intra-group trades" within a corporate group. I asked a former employee of a general trading company which is a member of an ex-zaibatsu type group, "Does a corporate group actually exist?" His immediate answer was, "Of course, It's too obvious. We have even an association for old boys of all member firms and its assembly." Note, however, that neither whether a group (of old boys) exists (whether, for instance, a junior or senior high school has an association of old boys), nor whether some proof for it is available (whether annual meeting is held and the members' list is renewed every year), is by itself critical. What is critical here is whether a "group" has remarkable influence on the pattern and flow of trades worthy of the public attention. This businessman is not clearly aware of the importance of the distinction. The importance of the influence appears to him so obvious, and he is searching for phenomena consistent with his interest.

I have to ask two questions for clarification before answering to, "What is your appraisal of the economic function of corporate groups?" First, what are the "corporate groups"? How the set of "groups," the object of the study, is defined, and what are in it as components. What, for instance, does follow such components as Mitsui group, Mitsubishi group, and Sumitomo group, and where does the list end? Second, where does the members' list of each group end, and how is the boundary set? The most popular answer to the first is "Six Major Corporate Groups" and that for the second is Shacho-kai members, however, few think them to be appropri-

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[5] FTC surveys Six Major Corporate Groups and reports the result every four years. The most recent one was published in May 1989.

ate. Everybody has his own definition in mind, though usually quite vague. Most supporters of the view have such a strong common belief in the critical importance of groups that they are seldom asked to clarify the definition, and therefore to face the difference.[6]

Once we choose a standard, we are able to draw a line based on it and make a list of firms in the set defined by it, which one may call a "corporate group." Note that we can do it whatever the standard is, and the function and effectiveness of the list totally depends on it. Therefore, the list and the corporate-group-view based on it has any analytical meaning and is useful only when the standard is theoretically justifiable and the list is effective in analyzing corporate behaviors and industrial organization.[7][8] As shown below, Miyazaki[1976]'s main concern seems to make a list, called kigyo shudan-hyo (Tables for corporate grouping). It lacks in interest on such effectiveness, and includes few concrete insistence that makes Tables enable to newly explain economic phenomena.[9]

[6] Readers may comment that it is so clear, for instance, for Mitsubishi group. Just ask yourself which of the following standards you have in your mind: (1) a firm which includes "Mitsubishi" as a part of the name; (2) a Shacho-kai member; (3) a borrower from Mitsubishi Bank; (4) a firm whose core bank is Mitsubishi Bank; (5) a firm where loan share of Mitsubishi Bank is more than 40 percent; (6) a firm of which Mitsubishi Bank has more than 3 percent of equities; (7) a firm at least one of whose directors was once an employee (for instance, a manager) of Mitsubishi Bank; (8) a borrower from Mitsubishi "financial group (Mitsubishi Bank, Mitsubishi Trust Bank, Meiji Mutual Life Insurance, and Tokyo M. & F. Insurance)"; (9) a borrower from Mitsubishi Corporation; (10) a firm the largest dealer of which is Mitsubishi Corporation; (11) a firm which takes part in Mitsubishi Pavilion for the Future in EXPO'70 in Osaka; (12) a firm in whose main office building more than the half of elevators are the product of Mitsubishi Electric; (13) a firm which has more than five Debonairs of Mitsubishi Motors.

[7] Thus, the first episode needs to ask, "Is the standard and the line based on it to include Toyota in Mitsui group justifiable?" and "Is the adoption of the line more effective in explaining Toyota's purchasing behavior, for instance, than the other or no line?" The second needs to ask what is to become newly explainable by assuming the existence of corporate group (by drawing a line) symbolized by an association of old boys.

[8] Note that "whether corporate groups exist or not" is a futile question, since the answer entirely depends on the definition both of "corporate groups" and "exist."

[9] "One-Set-Ism View" on equipment investment is an example. As shown in 7-5, however, a close examination shows that it is hard to understand the content of the view.

Brief Summary of Shacho-kai of Six Major Corporate Groups

Before an anatomy, readers need a brief introduction to what the view is talking about. Table 7-1 and Table 7-2 are a summary of information on Shacho-kai of Six Major Corporate Groups which is, as mentioned above, the most popular and representing.

----- Table 7-1 ------

Table 7-1 summarizes information on each group. As mentioned in 6-2, the first three groups are called ex-zaibatsu type or prewar zaibatsu-origined,[10] and the second three are called bank-type or bank-centered. Some of Shacho-kai began in 1950s, but most in 1960s. Members, 20 - 47 in number, meet once a month for 1 or 2 hours at lunch time. Shacho-kai cannot be the headquarter of the group, as FTC reports, "At the meetings, outside lecturers present reports on internal and external economic conditions, and information is exchanged on the general economic situation. At the meetings of prewar zaibatsu-origined corporate groups, such matters as approval of usage of trade marks as well as on donations made by the group in its entirety are reported."[11] (7) to (9) of Table 7-1 shows figures for famous intra-group relationship, that is, stockholding,[12] borrowing, and transactions. I believe that most readers who have ever heard of the groups are surprised at the low level of those figures. Note that the total employees of each ex-zaibatsu type corporate group's member firms is less than that of such firm as Volkswagen, General Electric, or Philips, and the

[10] Dissolution of prewar Zaibatsu was executed as a part of deconcentration policies in Occupied Japan under the force and supervision of the Allied Powers, following the end of the Second World War in August 1945. For a brief history and an evaluation of policies, see Miwa[1993]. The conventional view also exaggerates the policy effects.

[11] Fair Trade Commission, The Outline of the Report on the Actual Conditions of the Six Major Corporate Groups, Feb. 1992, p.15

[12] The corresponding figures for Mitsubishi and Sumitomo are 20.2 and 21.2 in 1955, 20.8 and 29.2 in 1960, 23.7 and 28.0 in 1965, 26.8 and 28.9 in 1970, and 30.3 and 29.6 in 1975. FTC supra note 11.

total sum of employees in all three groups is less than that of General Mortors.[13] Also note that these figures have meaning only when summing up can be justifiable.

-------- Table 7-2 ---------

Table 7-2 shows Six Major Corporate Groups' position in the Japanese economy during 1970-90. Though the number of members has grown steadily, the share has been rather declining. I believe again that most readers are surprised at the low figures. Readers may comment that figures in the table neglect the importance of subsidiaries and affiliates. FTC reports, however, that in 1987 subsidiaries (equity stake of more than 50 percent) of all non-financial member companies account for 4.2 percent in total assets and 3.8 percent in sales, and affiliates, with equity stake of above 25 and below 50 percent, account for 4.9 percent in total assets and 3.3 percent in sales, which do not affect the picture substantially.[14] Note that, although many large firms are members, others are not, such as all electric power companies, Nippon Telegraph and Telephone, Kajima Corporation, Nippon Oil, Bridgestone, Nippon Steel, Matsushita Electric, SONY, Honda, Mazda, Daiei, Industrial Bank of Japan, Nomura Securities, Japan Air Line, and Yamato Transport. Also note that such fiercely competing firms are in the same group as Hitachi, Iwasaki Electric, Sharp, Kyocera, and Nitto Denko in Sanwa group, and three firms belong to two groups and Hitachi to three groups, as mentioned in 6-2.

7-3. Basic Idea of Miyazaki[1976]'s Kigyo Shudan-hyo (Tables)

Since the publication of "Kato kyoso no ronri to genjitsu: Keiretsu shihai kikoh no kaimei [The logic and the reality of excessive competition: a

[13] Recall Table 1-7 above.

[14] Figures are from the Japanese version of FTC report released in May 1989.

study of keiretsu control mechanism]" in 1962, Professor Miyazaki has been the champion of the corporate-group-view, and Miyazaki[1976] is a compilation of his works on corporate groups. His main concern is to present kigyo shudan-hyo (Tables for corporate grouping; hereafter, Tables) and emphasize the importance of corporate groups. Let me begin with an anatomy of his basic idea for Tables.

One type of criticisms toward his view since Miyazaki[1962] is that it lacks in the definition of basic concepts and therefore is not clearly understandable.[15] Like the loan-concentration-view and adhesion-relationship-view studied in chapter 5, Miyazaki[1976] presents his view without defining basic concepts and interprets economic phenomena. He, like supporters of the view, calls the view "sagyo kasetsu [literally, working hypothesis]." Though not easily understandable, an anatomy must begin with the "sagyo kasetsu" where his basic idea must be reflected.

Miyazaki[1976, p.66]'s Tables are alleged to be based not on "subjective and intuitive" standard but on "objective" one. In order to determine whether there exists strong, or weak, relationship between each firm and a corporate group or not, he uses an "appropriate" combination of such indices as Shacho-kai membership, dispatched executives, stockholdings, loan amount, corporate bonds' underwriting. Miyazaki's basic idea is most clearly revealed in his response to Futatsugi[1977]'s critical comment on the allegedly "objective" standard: "For such works, it is essential to define corporate groups, by accepting a combination of standards as sagyo kasetsu, and improve it step by step by comparing it with the reality. Therefore, I cannot accept such an attack on the sagyo kasetsu, criticizing as 'subjective and intuitive.' He might do it, were he going to deny the existence of corporate groups. But when he is sure of the existence, he has to propose a better sagyo kasetsu for the definition. He must not abandon his effort, by emphasizing the 'subjectiveness.' My book

[15] Cf. Sugioka[1965]'s comment cited above in note 21 of chapter 5. I have to confess that after all I cannot understand Miyazaki[1976] clearly, as shown in 7-5.

is just an essay to define corporate groups with objective standards which are as economically meaningful as possible" (Miyazaki[1980, pp.172-73]).

Six questions arise: (1) How can one argue, without defining corporate groups, "He might do it, ... But when he is sure of the existence"? (2) Why such a process is essential as "to define corporate groups..., and improve it," when he is sure of the existence? Why can one be sure of the existence when such a process is essential? What is "the reality"? How one can "compare"? (3) What are "objective standards which are as economically meaningful as possible"? What do "economically" and "meaningful" mean? (4) What does he mean by "just an essay"? Does he intend to say that he is just drawing a line to define members, which does not reach such an argument as corporate group's "One-Set-Ism View" on equipment investment behavior? (5) What is "sagyo kasetsu"? What is it based on? How does he introduce it? (6) When he is sure of the existence, why does his main concern stay on the definition, instead of going to such other features as the function and its relations to non-members?[16]

Here the first question is the most basic. The corporate-group-view supporters seldom take it seriously, and Miyazaki[1976] neither examine nor explain. Readers must answer six questions, and think what Miyazaki[1976] tries to do and what for. The statement from the "Preface" of Miyazaki[1976, p.v] suggests what is taken so obvious and implicitly assumed: "Like in US, nobody denies the existence in Japan of interest groups which take a peculiar form of combination called 'corporate groups.' We need not talk much about prewar zaibatsu.... Though dissolved by the occupation policy, Shacyo-kai began to form, since the announcement of the completion of zaibatsu dissolution in July 1951, as an organization for communication among executive managers and collective decision making, and 'corporate groups' peculiar to Japan gathered the public's attention. Mitsubishi group's decision in August 1963 to remerge three firms in heavy industries born as a result of reorganization of the former

[16] Recall the second episode and related comment in 7-2. Note again that the existence question is futile. Cf. note 8 supra.

Mitsubishi Heavy Industries by the deconcentration policy[17] is the most striking event. Their collective action as a group in the meeting with the then First Vice Prime Minister of USSR in May 1964 and in Mitsubishi Pavilion in EXPO'70 also displays their existence and power. The whole affair is brought to light, now."

Now what is taken so obvious can be summarized: nobody has ever denied the existence of corporate groups; they gathered the public's attention again in the postwar Japan when they formed Shacho-kai; a series of impressive events brought the whole affair to light.[18]

7-4. Basic Intention of Miyazaki[1976]

Miyazaki[1976, p.iii] explains the basic intention of his study at the outset of Preface: "Studies of capitalism in prewar Japan were based on that of land ownership.... In studies of postwar Japanese economy, however, that of stock companies, focusing on 'ownership and control' relation, is the primary concern./ Thus, I study in this book Japanese firms in postwar period, especially in the High-Growth era."

The basic intention and an underlying schematic view for studies of "corporate groups" has been criticized.[19] To use "ownership" and "shoyu (control)" as keywords without definition is also criticized: "An organization as complex as a large contemporary firm involves complex

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[17] See Miwa[1993, pp.143-44].

[18] Try to answer questions: is Shacho-kai a decision making organization? if yes, on what issues it makes decisions? how it makes compromise and decision when diversity of interest and opinion among members exists? what is meant by "Mitsubishi group's decision?" isn't it striking and disappointing to hear that the events mentioned in the text are "the whole affair" of corporate groups?

[19] For instance, Nakamura[1975, p.44] criticizes the "manager-control-collapse" view of Miyazaki[1972]: "Why does Professor Miyazaki dare to deny the manager control? He maintains that the ownership-control correspondence has been the basic evil of capitalism. As it changes the form today to corporate ownership-control correspondence, he has to deny the importance of manager control which is relatively independent of stock ownership. But such traditional Marxian view to regard private ownership as the basic evil is inappropriate to investigate modern capitalism."

mechanism for distributing the surplus it generates. Irrespective of legal definitions of rights and responsibilities, ownership of the firm, in an economic sense, is not easily defined. 'Ownership' is not a black-and-white affair, but a 'grey' matter to varying degrees: who gets what share in the firm's profits, who is responsible for the losses, and who participates to what extent in its managerial decision-making process./ 'Control' or 'manage' (Japanese, shihai) is even more difficult. The Japanese word shihai expresses a number of nuances, and depending on context can be rendered into English as control, manage, govern, direct, rule, dominate, or sway. Unless one's purpose is propaganda, it is best to avoid using the term at all in social-science discourse unless its meaning is clearly defined at the outset" (Komiya[1990, pp.168-69]). Miyazaki[1976] never clearly define "ownership" and "control." Taking it for granted that he can draw a line, he devotes all his energy to "define corporate groups with objective standards which are as economically meaningful as possible."[20]

Prewar studies were based on that of land ownership since most regarded land as the most basic productive resource (factor). Then, why and how "stock companies" can be the most basic resource in postwar Japan? We have to examine the appropriateness of this judgement, which requests the definition of "ownership" and "control." Even when "stock companies" in postwar Japan, like land in the prewar period, decisively influence the distribution of surplus of the whole economy, it cannot be a goal only to study "ownership and control" relation, and to "define corporate groups with objective standards." What is the most basic resource, which therefore make "stock companies" deserve the primary concern, must be the critical

[20] Miyazaki[1980, p.184], concerning "manager control," declares that "his argument depends basically on the traditional definition since Berle-Means" and rejoinder to Nishiyama[1979] and Nakamura[1975]: "The views of Nishiyama and Nakamura require a change of the definition of 'manager control,' and hard to accept immediately. Therefore, I have no choice other than accept the Berle-Means definition already established among academics." Thus, he asserts only that he applies Berle-Means argument to Japan and that it is already established among Japanese academics. Recall the dogs metaphor mentioned in Introduction to Part II.

question. As shown in 7-6 and 7-7, Miyazaki[1976] views "funds," which take such forms as stockholdings and loans, as the most basic resource. Most academics, especially economists, do not agree with this view, as revealed in the recent explosion of economists' interest on organization, symbolized by nexus of contract view or contract theory view of a firm.[21]

7-5. Decision Making and "Ownership"

As shown, Miyazaki[1976] studies "ownership and control" relation and defines corporate groups (Tables) without showing the definition of "ownership" and "control." He applies his result to real phenomena, interprets them, and proposes a strong argument which is famous as "One-Set-Ism View" of corporate group behavior in equipment investment. For a better anatomy both of his corporate-group-view and of "One-Set-Ism View," let me examine whether his argument for the causality is valid: corporate groups -> equipment investment behavior of the "One-Set-Ism View" type -> "inclination to excessive competition" and "High-Growth." My primary concern here is whether a deviation between two hypothetical states is identifiable: a state where corporate groups exist and have decisive influence on the investment behavior of individual firms and a state where corporate groups do not exist or have not decisive influence.

Miyazaki[1976] is a compilation of his works on corporate groups, and

[21] In short, "organizations are composed of and therefore responsible to multiple stakeholders" (Kochan and Useem[1992, p.5]). See also Milgrom and Roberts[1992, p.20]. For the details of recent literature on organization, see Part IV. The statement from Imai[1989, pp.141-42] exemplifies the new wave: "Today the essential task for a firm is not to carry out routine works steadily but through interaction of agents to create information, to search new context for business, and develop an accumulation process for continual innovation. Seldom capital owners (stockholders) appear in such interaction with power of critical importance. Even in a firm where stockholdings are not dispersed and stockholders keep a decisive power to control personnel affairs, they usually make use of it only in an emergency.... They rarely intervene and influence the interaction.... Thus, in corporate group relationship, the importance to hold more than the majority of stocks ....has declined./ Thus, ownership does matter only in an emergency. Otherwise, managers need not the power delegated from owners for work coordinations, and ownership expands the boundary neither of a firm nor of a corporate group."

includes almost as it is the core part of Miyazaki[1967] whose subtitle is "a study of keiretsu control mechanism." Readers will be surprised and disappointed to find in it neither a strong assertion for an effective "keiretsu control mechanism" nor evidences.

Miyazaki[1976] distinguishes "control" from "business leadership," as more clearly stated in Miyazaki[1979, p.234]: "As R. A. Gordon points out, business leadership is 'the function of organizing and directing business enterprises, of making the decisions which determine the course of a firm's activities.'[22] Control is different from such active leadership. It is the power to select and dismiss managers./ In Japan, 'corporate control' implies that a parent company (or parent companies) holds through stockholding the power to select and change managers in charge of business leadership. When the principal stockholders are not individuals or a group of them but stock companies, the power to select managers is in the hands of managers of parent companies." As an equipment investment decision is under "business leadership," my prime concern is whether "the power to select and dismiss managers" is actually in the hands of "corporate groups," and whether, if yes, it is used effectively.

In chapter 5 "Corporate Groups Before and After the War," Miyazaki[1976] compares the three major prewar zaibatsu with three major postwar ex-zaibatsu type corporate groups (Mitsui, Mitsubishi, Sumitomo).[23] Commenting that the "'separation of ownership and management' was accelerated and the dominance of managers in Shacho-kai strengthened by the 'war crime purge' and the 1950 corporate law amendment which permits non-stockholder manager" (p.249), he quotes Noda[1963, p.263] as the same argument: "The power to control management in a large firm in postwar Japan is in the hands of those who are independent of ownership. So long as the firm is run well, they have a wide discretion on business (even

[22] Gordon[1945, p.5].

[23] Miyazaki[1976, pp.63-64] comments that "corporate groups" are not the same and the "authority and function" of Shacho-kai greatly differs. However, in these three groups the "authority and function" is thought to be the most influential.

in firms in ex-zaibatsu type groups). Thus, the influence from the outside control group has been remarkably weakened."

He also comments that the tie through dispatched executives has been tremendously weakened.[24] Therefore, Miyazaki[1976] actually argues that, even in ex-zaibatsu type corporate groups, they neither hold the power to "select and dismiss managers" in charge of "business leadership" nor effectively use it. This conclusion also applies to other corporate groups. Thus, Miyazaki[1976] observes that equipment investment decision is independent of "corporate groups." Even when there exists "an inclination to excessive competition" in the Japanese economy, as at least the title of Miyazaki[1962] suggests, it cannot be a direct result of "corporate groups" or "keiretsu control."[25]

Note that the above anatomy and conclusion applies not only to equipment investment behavior but also to all other decisions under Miyazaki[1976]'s "business leadership." Thus, even when "corporate groups" exist, they influence neither behavior of individual firms nor performance of each industry. Therefore, they do not influence the industrial

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[24] "Human ties are weak even in Mitsui, Mitsubishi, and Sumitomo. It is mainly because stock holding companies were dissolved. Further, because of Section 13 of Antimonopoly Law which restricts interlocking directorates, a dispatched executive in most cases belongs exclusively to one firm.... Even an executive from a bank is mostly dispatched as a specialist in charge of accounting.... Therefore, human ties within postwar keiretsu corporate groups are incomparably weaker than those in prewar zaibatsu" (Miyazaki[1976, p.255]). However, Section 13 is effective only when "such an interlocking directorates may be substantially to restrain competition in any particular field of trade," and his explanation is not persuasive.

[25] Readers may wonder and ask what then is the "One-Set-Ism View" of equipment investment behavior. Even when corporate groups exist, they do not influence individual firm's investment behavior, and therefore they are not meaningful existence like an association of high school old boys. Noda[1963, p.269] states, in commenting Miyazaki[1962]: " We observed investment behaviors that can be summarized as 'one group, one set.' It is not bank managers but managers in each individual firm that took the initiative. The former played a role only to back-up such active investment behaviors." Moreover, just think where are such "One-Set-Ism" phenomena as every corporate group has a member in each industry. What else than such classical type of industries as banking, life insurance, general trading company, construction, chemical, cement, and shipbuilding. No such phenomena in such big industries as steel(blast), automobile, home electronics, machinery, precision equipment that highlight the industrial success. "One-Set-Ism View" supporters appear to talk only about petrochemicals.

performance of the Japanese economy as a whole, and cannot be an important factor for its industrial success. "Corporate groups" are not worth attention for understanding the Japanese economy.

For the next two sections where I closely examine Miyazaki[1976]'s Tables, I have to add a comment here. Though includes almost as it is the core part of Miyazaki[1962], it declares in Preface, "The power of Shacho-kai has been much strengthened since the depression in 1965, and now it holds a strong power to speak to the selection of executives, especially the president, in individual firms" (p.v). Whether this declaration is valid is another question, however, it implies that he thought "the power of Shacho-kai" not so strong in 1962 when he published his "study of keiretsu control mechanism" with Tables.[26] Also note that the subtitle of Miyazaki[1976] is "Analysis through Tables (for corporate grouping): 1960-70."

7-6. Seven Features of Miyazaki[1976]'s Tables for Corporate Grouping

Though so popular and widely supported, Miyazaki[1976] is, as shown, not clearly understandable. For a closer examination in the next section, I try here to find and show what it is by interpretation. It is "an essay to define corporate groups with objective standards which are as economically meaningful as possible" (p.66). No explicit explanation, however, for "economically meaningful" is available, I have to guess the meaning from his process in making Tables and explanations. The principal reference is "4 Determination of Standards for Corporate Group Classification" (p.59 and after). Miyazaki[1976]'s corporate groups can be summarized with seven features, some of which are overlapping.

First, he regards that inter-firm connections can be represented by four concrete indices, and therefore the task is not limited by the availability of data. After introducing seven indices for inter-firm

[26] The majority of the "corporate-group-view" supporters has the opposite view on this point, I believe.

connections, he states, "Of these seven, we can determine only four: fund raising relations; stock holding relations; personnel relations such as dispatched executives; historical relations." However, he declares, "The concrete standards for classification based on these four indices are enough to study corporate groups from the side of inter-firm connections and that of control relations by capital" (p.60). His standards are based on "Shacho-kai membership, dispatched executives, stockholdings, loans, and corporate bonds' underwriting"(p.66), and therefore his "historical relations" stand for Shacho-kai membership.

The second feature is that he regards "parent firm - subsidiary" connections as the principal, and the "connections between subsidiaries" as the supplementary. "Parent firm - subsidiary connection includes that with a firm formerly a department of a parent..., and that with a firm, the majority of whose stocks are held by a parent, which cannot make independent decisions.[27] Apart from such one firm - one firm connection, in a corporate group many firms are connected to a parent through Shacho-kai, stockholdings, loan, and dispatched executives, among which there are a kind of connections" (pp.60-61).

Third, he regards that typically financial institutions are the core of a corporate group. Two reasons are for this interpretation. (1) As the first of three types of corporate groups, he talks about ones in which financial institutions are the core: "Like in ex-zaibatsu type... financial group such as bank, trust bank, and insurance company is the core, or one bank is the core with keiretsu loans. Of these, some like Mitsubishi, Mitsui, Sumitomo...form Shacho-kai which function as the central decision making unit, but others do not." "Financial institutions are not the core" in the second type, like Toshiba group. "In some of these, the core firm is a member of a corporate group of the first type" (p.61). (2) Of five items in the "standard," three, that is, Shacho-kai, loans, and corporate bonds'

[27] He also declares, "so-called Shitauke (subcontractor) is in the same type of connection," which I cannot agree with. Recall chapters 3 and 4.

underwriting, are irrelevant to corporate groups in which "financial institutions are not the core." It implies that the standard, therefore, the "Corporate Group Classification" is for groups in which financial institutions are the core.

Fourth, he regards that a firm in "parent firm - subsidiary connection or in a corporate group" is in keiretsu and does not make independent decisions. This interpretation is from the statement on keiretsu-gai kigyo (non-keiretsu firm): " Of course, all large firms with ¥5 billion in assets are not in a parent firm - subsidiary connection or a corporate group. Not a few are non-keiretsu firms which make independent decisions, to which the 'Standard' does not apply" (p.61).

Who makes decisions is the next check point, to which the next two features concern. The fifth feature is that he regards Shacho-kai as of top importance, as suggested by his statement that "classification of firms into corporate groups need parent - subsidiary connection determination, Shacho-kai evaluation, and financial group determination." He talks about Shacho-kai, "firms in an ex-zaibatsu type keiretsu have a meeting called Shacho-kai, which coordinates policies of the group, makes a business plan for joint venture among members, and determines whether a new use of ex-zaibatsu name should be permitted"[28] (p.63).

The sixth feature is that "financial group" plays a crucial role. "A group of financial institutions like in Mitsui, Mitsubishi, and Sumitomo talk in making decisions through Shacho-kai and behave as if each of them were an single unit, which I call here financial group./ In this study, I use only the sum of dispatched executives and loans from financial institutions in a financial group, which means that I treat them as an institution" (pp.65-66).[29]

The seventh feature is related to the relative weights attached to "stockholding ratio" and "loan amount." For instance, in his standard to

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[28] Repeat the questions in note 18 above.

[29] Recall the argument in chapter 6, especially the last part of 6-2 on "the cooperative relationship among banks within a corporate group."

identify a strong connection, stockholding ratio of 20 - 40 percent has an equivalent value with the borrowing amount equal to 50 - 100 percent of equity value. Not the concrete figures but his basic idea is worth attention. Miyazaki[1980] explains: "Equity/total assets ratio of firms in my study centers between 25 and 30 percent..., that is, liability/equity ratio is about 2.5. Therefore, loans equivalent to the total value of equity equal 40 percent of liabilities..., which, thus, has an equivalent value with 40 percent stockholdings" (pp.171-72). Miyazaki[1976] regards stockholding (or investment) almost the same, though with different value, with loans as both are "funds" supplying behavior.[30]

Thus, Miyazaki[1976]'s corporate groups determined "with objective standards which are as economically meaningful as possible" can be summarized: a financial group, which behaves as if it were a single unit, is the core of a corporate group; around it are connected many firms with Shacho-kai, stockholding, loan, dispatched executives, which form a corporate group; a firm in parent - subsidiary connection or in a group is in keiretsu and does not make independent decisions; some of Shacho-kai functions as the central decision unit of a group; financial institutions occupy a dominant position because they "control" funds keiretsu firms need.

7-7. Six Questions on Miyazaki[1976]'s Tables

In this section I present six questions on Miyazaki[1976]'s "essay to define corporate groups with objective standards which are as economically meaningful as possible," and on the "corporate groups" thus defined. I take a form of "questions," because it is impossible to criticize it from the effectiveness point of view for explanation of economic phenomena. For, as mentioned above, I cannot clearly catch what it is and what it does. Each

[30] Such a view is not understandable and acceptable for most readers, I believe. Even when adopted a similar method, Nishiyama[1975, p.25] attach 10 instead of Miyazaki[1976]'s 2.5.

of six questions is so essential that, unless a reader regards all of them ineffective, he has to abandon the corporate-group-view as an effective analytical tool for the Japanese economy, Japanese industry, and Japanese firms.

The First Question: "Existence" of What?

As mentioned in 7-3, Miyazaki[1976] assumes "the existence of corporate groups." What then is assumed to exist? Which does it assume: the existence of "financial group"; that of a group of firms which are connected to it and cannot make independent decisions; that of Shacho-kai which functions as a central decision making unit of a corporate group? Or does it assume all? And what else? Or, does he assert the "existence" on his observation of these phenomena? Rather, does he implicitly assume the existence of something higher or superior, of which these phenomena are only the realization?[31]

The Second Question: Validity of Factual Judgement and Logical Consistency

Does he assert that the corporate-group-view is valid? The question arises from four points. (1) Miyazaki[1976, pp.249-50] comments on Shacho-kai: "Recently, in any corporate group the president of a firm in heavy industries has stronger power than that of a bank.... A different firm plays the core role in Shacho-kai, depending on issues, like a bank for financial issues and a big manufacturer for issues on new technology. Thus, Shacho-kai has the core, but relationship between members are not that of high and low." This comment is inconsistent with either of three "features": the "financial group" is the core (6th); the "funds" supply is the core (7th); firms connected with the financial group is in keiretsu and

[31] Recall the quotation from Miyazaki[1976, p.v] in the end of 7-3, "The whole affair is brought to light now." See also the third question below, especially note 32.

do not make independent decisions (4th). (2) Miyazaki[1976, p.250] comments on Shacho-kai in the first half of the High-Growth era: "Like in prewar zaibatsu, Shacho-kai in those days had the power to make and actually made decisions on new business and loans in an emergency. But it had no power to control personnel affairs, and it could not coordinate individual interests and make a collective decision. Thus, often we observed struggles for larger market share among firms in the same group." This comment is inconsistent with the fifth feature to regard Shacho-kai as of top importance. (3) The comment already mentioned in 7-5 is inconsistent with the first and second features that emphasize the importance of dispatched executives: "Even an executive from a bank is mostly dispatched as a specialist in charge of accounting....human ties within postwar keiretsu corporate groups are incomparably weaker than those in prewar zaibatsu" (p.255); (4) Following a comment that "a wide variety exists among corporate groups, form an association for communication and friendship to a central decision making unit," Miyazaki[1976, pp.63-63] treats only 3 Shacho-kai, those of ex-zaibatsu type groups, as strong ones that function as central decision making unit, and others as weak. This treatment is inconsistent with the sixth feature when applied to Six Major Corporate Groups.

The Third Question: Who Makes Decisions?

No explanation is in Miyazaki[1976] on who makes decisions and for what. When I accept an assumption that Shacho-kai plays a crucial role as the central decision making unit, immediately questions arise: who actually participates in the decision? how does it make a compromise and decision when diversity of interest and opinion among participants exists? what is the target for individual member's decision making? is there, apart from individual member's target, any common group standard which strongly affects member's decision, for instance, by restricting feasible sets or by subordinating individual's interests? The same questions arise when I accept an assumption that "financial group" is the core. Moreover, the same is true for a city bank which is regarded to be the core of a financial group. Does the president or the board of directors make independent decisions, that is, are such decisions unaffected by such outside interests as "corporate groups" and "corporate group" other than the stakeholders usually considered to be taken into consideration (stockholders, employees, depositors, borrowers, etc.)? No answer is in Miyazaki[1976].[32]

The Fourth Question: Why are Financial Institutions so Important?

Why are financial institutions so important in Miyazaki[1976]? So long as "funds" or "capital" is a good traded in the market and the basic function of a financial institution is intermediation, it is unimaginable to attach so much importance to the "control" of "funds," the role of financial

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[32] A natural conjecture seems to be that he assumes something transcendental(T), which controls and subordinates all decisions of bank managers, and those of a financial group and a corporate group. However, there is no way to make sure. The "will" in the following statement suggests the existence of such T: "The high ratio of stocks held by all member firms of a group to the total reveals a strong will for exclusive control over the interior of corporate group, by defending from invasion from outside" (Miyazaki[1979, p.238]). A reader who assumes the same type of existence has to listen to Komiya[1990, p.167]'s comment entitled, "Who owns the large firm?": "When one nets out these interlocking shareholdings, insurance companies emerge as the leading holders of large companies' stocks. ...only four of the twenty insurance companies in Japan are stock companies, and they are relatively small. The other sixteen.... are all mutual companies, which legally are owned by their <u>sha-in</u> or 'company members.' In the life insurance mutual company, the term <u>sha-in</u>... signifies those who subscribe to life insurance plans offered by the company.... after all the interlocking shareholdings are canceled out, and assuming that those left are the true owners, we find that the core big business in Japan is owned, at least legally, by perhaps the forty or fifty million subscribers to private life insurance plans." Also as Nishiyama[1975, pp.12-13] indicates, only large city banks and long-term credit banks, which are perfectly controlled by managers, have strong influence on large firms, and "each large stockholder has only one to five percent of total stocks." See Miwa[1990, p.202-03], fn.45. Regarding with "interlocking shareholdings," "cross-shareholdings," or "<u>mochiai</u> of stocks," see the discussion in Part IV.

institutions, and the existence of "financial group." Why can "funds" control the corporate group's will and decisions?[33]

The Fifth Question: Does Shacho-kai Play an Important Role?

As mentioned above, Miyazaki[1976, p.63] regards Shacho-kai as of top importance and argues that it "coordinates policies of the group, makes a business plan for joint venture among members, and determines whether a new use of ex-zaibatsu name should be permitted" (the fifth feature). Questions arise: what else? what does it do for "coordination"? what is the list of such joint ventures? is such permission so important?[34] does Shacho-kai play an important role? apart from the existence of Shacho-kai meeting, I find almost no statement and no explanation for its importance.[35]

The Sixth Question: Are Shacho-kai Members Controlled by Financial Group?

The fourth question awakes another question: are Shacho-kai members controlled by financial group? if yes, why and how? As mentioned, Miyazaki[1976, 1979] distinguishes "control" from "business leadership." Does corporate group (or something transcendental) have and actually use the power to select and dismiss managers of a firm which Miyazaki[1976]

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[33] Recall the conclusions in chapter 5 on "adhesion relationship" and chapter 6 on "Mainbank."

[34] Miyazaki[1976, p.63] takes the rename of Nagahama Plastics to Mitsubishi Plastics and that of Iwaki Cement to Sumitomo Cement as examples. Mitsubishi and Sumitomo have some brand value, and stakeholders have common interest in its preservation which needs such collective action. The problem is why it is so important. Note that such Shacho-kai members do not include ex-zaibatsu name in their own as Mitsukoshi, Toray, Nippon Yusen, Tokio M. & F. Insurance, Meiji Mutual Life Insurance, Asahi Glass, NEC, Nippon Sheet Glass. A recent notable case is the change of Taiyo Kobe Mitsui Bank to Sakura Bank in April 1992.

[35] Repeat again the questions in note 18 supra. Also recall the explanation of Shacho-kai in the FTC report mentioned in 7-2. However, always there has been an opposition among "the corporate-group-view" supporters. See, for example, Yada[1980, p.252].

identifies as "controlled" by it? Does to hold 40 percent of stocks assure an equivalent power to "control" the firm with to lend it the amount equal to the equity value (recall the seventh feature)? Following the statement quoted in 7-5, Noda[1963, p.264] explains as follows, both of which suggest the importance of the question[36]: "Today most managers in large firms are specialists consistent with such requirements as knowledge, capability, and experience for corporate management and control."

Ask, when financial group (or T) acquires the power to select managers through stockholdings, whether it can use it, whether it regards it profitable to use it, and in what cases or under what conditions it regards it profitable to use it. The definition of "control" is unclear and an essay to determine whether it is "controlled" is insignificant when it can hardly use it, when it can rarely improve the profitability by using it, for instance, by changing some managers, or when "ownership does matter only in an emergency" (Imai[1989, p.142], op. cit. in note 21). The relevant question here is, like in 7-4, what is the most basic resource in the postwar Japanese economy and for each large firm. The answer to what makes "most managers in large firms ... specialists" is the same, which is in op. cit. Imai[1989, p.141]: "Today the essential task of a firm is not to carry out routine works steadily but through interaction of agents to create information, to search new context for business, and develop an accumulation process for continual innovation." Seldom today, therefore, funds suppliers appear in such interaction with power of critical importance.

What will happen when suppliers of "funds" use "the power to select and dismiss managers," which are acquired either by stockholdings or by making loans, against the will of specialists in management, that is, owners and suppliers of managerial resources? Either of the two directions will follow: a change in source of "funds"; decline of morale, quality deterioration of managerial service, exit, and only inferior applicants for

[36] Recall that, as shown in 7-5, Miyazaki[1976] quotes Noda[1963] as the same argument.

the position, of managers. Therefore, funds suppliers, even when they have the "power," recognize that it is hard to use it, to make profit by using it, and take it seriously only in an emergency.

The reality of "control" is, thus, far from what Miyazaki[1976] assumes for Tables, the view that financial group subordinates Shacho-kai members. The role of dispatched executives is not determined by such "control," and, therefore, it has no firm ground to count the number of executives dispatched by the financial group as one of the indices for the corporate group classification standard. "Even an executive from a bank is mostly dispatched as a specialist in charge of accounting" (Miyazaki[1976, p.217]), and "most managers in large firms are specialists consistent with such requirements as knowledge, capability, and experience for the corporate management and control" (Noda[1963, p.264]). Note further that, when a group of owners and suppliers of managerial resources has the power to select and dismiss managers, they have also the power to decide the source of funds for their use. It is they, therefore, that decide what type of executives should be invited from outside and whether an executive a large stockholder or a lender (Mainbank) proposes to send should be accepted.[37]

An Appendix to the Sixth Question: Illustration

Let me show cases for illustration. The relationship between Hitachi and Hitachi Metals is the first one. Miyazaki[1976, pp.60-61] takes it as a representative of "newly established subsidiary by separation of a department of a parent firm," and comments that under a "parent-subsidiary connection" the latter is "a firm which cannot make independent decisions."[38] Yuka Shoken Hokokusho (Security Reports: Ministry of Finance) of Hitachi Metals for the term ending in March 1987 states the relation-

[37] For the details of this view, see Part IV below.

[38] Nishiyama[1975, p.145] also takes this case as "a representative case of the dependence-type."

ship: Hitachi holds 52.8 percent of stocks; of 17 board members 15 are former employees of Hitachi, and 2 are directly employed after graduation by Hitachi Metals; of 15 from Hitachi 12 (all 8 managing directors and the higher are included) moved to Hitachi Metals when established in 1956, and 1 in 1957; of the remaining 2, 1 is the president of Hitachi and the other moved in 1979 and appointed a member in 1983.[39] Note, however, that already 30 years have passed since 1956. I cannot take seriously these facts as the evidence for Miyazaki[1976, p.232]'s insistence that "the parent firm has the power to select and dismiss managers." Is it appropriate to judge from these that such a subsidiary "cannot make independent decisions?"

Almost the same is the case for Hitachi-Hitachi Cable relationship in March 1987: Hitachi holds 50.84 percent of stocks; of 19 board members 16 (all 11 managing directors and the higher are included) moved from Hitachi in 1956 when newly established; 2 of the remaining 3 were directly employed by Hitachi Metals directly after graduation and the last is for the president of Hitachi.[40]

The next case is Toshiba-Toshiba Machine relationship. Toshiba Machine, besides ordinary business, became politically famous by a violation of COCOM (the Coordinating Committee for Export to Communist Area) rule in March 1987. As Toshiba held 50.08 percent of stocks, whether Toshiba knew and committed the violation was the public's primary concern. Here, however, I focus only on how Toshiba's "power to select and dismiss

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[39] The situation is almost the same for the term ending in March 1977, 10 years before: Hitachi holds 54.17 percent of stocks; 15 members of 16 are from Hitachi in 1956; the remaining is the president of Hitachi.

[40] Almost the same is the case for Hitachi Chemical in March 1987: Hitachi holds 55.98 percent of stocks; of 17 board members 13 (7 of 8 managing directors and the higher are included) moved from Hitachi in 1963 when newly established; of the remaining 4, 3 from Hitachi, in 1965, 68, and 83, the last of whom was from the Head of Hitachi Production Technology Research Institute and appointed a managing director in 1987; the last is for the president of Hitachi. Thus, a chair in all three firms for the president of Hitachi appears to be only a matter of form. He must be busy for his work in Hitachi, and the other should be appointed if Hitachi were going to control "subsidiaries."

managers" is used in the general meeting of stockholders in June 1987.[41] Of 13 board members appointed there 4 are new, of whom 3 are employed by Toshiba Machine directly after graduation. The last is appointed to an executive managing director from an auditor of Toshiba, besides whom only one member from Toshiba is on the board. He moved in 1983 and was appointed to a managing director in 1985, whose career in Toshiba as a specialist of semiconductor, however, suggests that his appointment is not for "control" but for his expertise. Among 5 who disappeared from the board members' list is an executive managing director who had moved from Toshiba in 1979. Judging from the number and positions of dispatched executives, therefore, no change occurred by "the power" of Toshiba.[42] These observations can be explained not by a parent's control on Toshiba Machine but by assuming that it is carried out by specialist managers who can make independent decisions and Toshiba's intervention, if any, is marginal.

7-8. Three Additional Comments

As mentioned, the corporate-group-view is like a UFO-existence-view. I add three comments in this section for those who still remain as supporters of the view.

The First Comment: a Misunderstanding of my Message

The existence of corporate groups totally depends on the definition of "corporate group" and "existence," and "whether corporate groups exist or

[41] Note that no basic difference exists between Japanese corporate law and American, for instance. See Yanagida et als.,[1994]. Note also that because of this "affair" the top two executives of Toshiba resigned, and an vice president on the third position was appointed to the president. In Toshiba Machine the president resigned, and not an executive from Toshiba but an former executive managing director who had been a member of this firm from the start followed the chair.

[42] No change in board membership is in the meeting of June 1988, therefore, such a small change in 1987 is not because of the short interval after the "affair."

not?" is a futile question. Note, therefore, that none of what follows is my assertion: any corporate group does not exist; any corporate group must be judged non-existent on whatever the standard; corporate groups have no raison d'e^tres; corporate groups have no influence.

The anatomy of this chapter is focused on a type of "corporate groups" represented by Six Major Corporate Groups, and, coupled with the argument in the previous chapters, I express a strong doubt to accept without reservation the existence of such corporate groups and their critical role as an valid assumption for understanding Japanese economy. Especially, any argument and explanation of corporate group's behavior, which is based on an active role of financial group or Shacho-kai, is unacceptable and invalid. Note, however, that I do not deny an argument for other type of groups or associations, as shown in chapter 4, for example, on Toyota's Kyoryoku-kai.[43]

The Second Comment: Danger and Invalidity of the Existence Assumption

Whether corporate groups exist or not is a futile question. But to assume the existence of such corporate groups as Mitsui Group and Mitsubishi Group for understanding Japanese economy is invalid and dangerous, since conventional concrete arguments on such groups are far from the truth. Four points follow: (1) Such an assumption as to state "when he is sure of the existence" (Miyazaki[1980, p.172]) is unacceptable[44]; (2) Such materials as Kigyo Keiretsu Sohran [Conspectus of Corporate Keiretsu] (annual, Toyo Keizai; English version from Dodwell Marketing Consultants with a title

[43] Even in this case, so many traditional studies, following the same view, search such ties for "control" as funds and dispatched executives, and call it keiretsu. Note that raison d'e^tres for such corporate groups are essentially the same as the answer to the Coase[1937]'s question: "why a firm emerges at all in a specialized exchange economy." For further discussion on this point, see Part IV.

[44] Those who still stick to saying, "but there is something essential which should be called corporate groups," have to identify what it is and make clear why it should be called corporate groups. My advice is to dispense with such slangy and foul phrase as corporate groups contaminated with vague preoccupations.

"Industrial Groupings in Japan"), Keiretsu no Kenkyu [Studies of Keiretsu] (annual, Nihon Keizai Chosa-kai), and Miyazaki[1976] are totally based on this assumption, and therefore are dangerous and of no value for understanding Japanese economy. They are also a source of further misconceptions; (3) Studies on the causes for corporate group formation totally depends on the existence assumption, and are, therefore, of no value[45]; (4) Lots of econometric studies examine differences in the mean value and variance of profit rates, and growth rates between members of corporate groups and non-members. They, however, totally depends on the existence assumption. They cannot escape from a criticism, "what are they doing?," since their testing hypothesis has never been clearly explained.[46]

The Third Comment: Be Careful not to Bark at a Voice

So much literature on "corporate groups" has been accumulated, most of which, however, neither clarify the underlying assumptions and examine their validity nor identify the difference from other literature. Thus, prior literature is only a grotesque pile of vague assertions. Therefore, when one is sure of something "corporate-group-like" or when one has something definite and new on "corporate groups," he must be careful not to bark at a voice. Without clarifying what he is saying and identifying the difference from others, nobody will distinguish him from hundred dogs. The best way to avoid such tragedy is not to use such preoccupied phrase as "corporate groups."

Make three points clear for identification: (1) The degree of closedness and exclusiveness of "corporate groups." Miyazaki[1976]'s Tables are made by determining whether a firm belong to a group on the assumption

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[45] For a brief review of the literature, see Uekusa[1982] p.286 and after. See also supra note 43.

[46] For instance, see Uekusa[1982] p.280 and after, Nakatani[1984], and Hoshi et als.[1991]. See also a critical comment of Komiya[1988, p.62, fn.17] on Nakatani[1984]'s conclusion.

of its existence. It implies that each corporate group is assumed to be closed and each firm's relation to a group is exclusive. The corporate-group-view and the term keiretsu relationship almost always assumes this character. A reader, therefore, who recognizes the importance of long-term relationship but does not accept such closedness-exclusiveness assumption, must be careful not to be misunderstood and stimulate the confusion; (2) The difference from the "parent-subsidiary connection" of the conventional corporate-group-view. The conventional view assumes the "parent-subsidiary connection" between core firms (typically a financial group, including a city bank) and a member as the representative, in which "high and low relation", "control", and "dependence (or subordination)" are the keywords. A reader, therefore, who recognizes the importance of long-term relationship but does not accept such assumptions, must be careful; (3) The importance of the boundary which distinguishes group members from non-members. Even the conventional corporate-group-view, including Miyazaki[1976], recognizes a diversity of the strength of relationship between core firms and other group members. However, it implicitly argues that the boundary which distinguish the inside of a group from the outside is critical, since it assumes as obvious the existence of the group and regards the determination of the group as of the top importance. A reader, therefore, who recognizes the importance of long-term relationship for understanding the formation and regards the boundary so blur and fluid, must be careful.

7-9. Concluding Remarks

"'Administered prices' is a catchy phrase which promises everything, explains nothing, and thereby gets in the way of our learning something" (Adelman[1963, p.23]). With this statement Morris Adelman begins his contribution to the request of Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, US Senate, which held an extensive inquiry into administered prices since 1957. It comes to my mind at the end of this anatomy. Replacing "administered prices" with "corporate groups" and "Mainbank" is just my present frank feeling.

No further remarks are necessary, and Adelman[1963, p.24]'s ending paragraph suits well here: "What does administered prices in understanding either price formation or public policy? Less than nothing, because it is a waste of time, which is a valuable resource, and lulls us into a false satisfaction which becomes one more barrier to cross. By mouthing phrases we head off thinking ideas. The fact is that the overwhelming bulk of wholesale prices, and just about all retail prices, are administered. They are announced in a deliberate manner rather than being thrown out, as on the stock or commodity exchanges, as the sparks from a constant stream of individual transactions. But this is form, not substance. To explain why a price and a pattern of output is what it is and not something else takes analysis of supply, demand, and market control; setting up models of competition, monopoly, collusion, imperfect collusion, etc., and seeing which best fits. All this labor is saved, and in addition one has the nice feeling of being profound and up to date by saying: 'Administered prices.'"

Table 7-1 Shacho-kai (Presidents' Meeting) of Six Major Corporate Groups

(1) Common Name of Group	Mitsui	Mitsubishi	Sumitomo	Fuyo	Sanwa	DKB	Average of Total
(2) Name of Shacho-kai	Nimoku-kai	Kinyo-kai	Hakusui-kai	Fuyo-kai	Sansui-kai	Sankin-kai	
(3) Year of Establishment	1961	1954 or 55	1951	1966	1967	1978	
(4) Number of Members	24	30	20	29	44	47	32
(5) Meeting held on	every first Thursday	every second Friday	once a month	once a month	once a month	once in three month on the third Friday	
(6) Number of employees of all member firms (thousands)	240	242	155	330	390	464	264
(7) Ratio of Intra-Group Stock Holdings (in percent, 1989)	19.5	35.5	27.5	16.4	16.5	14.6	21.6
(8) Ratio of Intra-Group Borrowings (in percent, 1989)	24.0	18.0	26.6	19.5	17.0	12.1	17.5
(9) Ratio of Intra-Group Transactions of Manufacturing Members (in percent, 1989)							
Sales	18.8	25.6	38.1	12.7	6.3	11.9	16.4
To General Trading Companies	17.8	21.4	37.4	11.1	4.8	6.9	13.7
Purchases	12.0	15.0	16.4	4.0	5.2	8.2	9.0
From General Trading Companies	11.2	10.3	15.3	2.1	3.0	4.8	6.4

Notes: (1)-(6) are from Kigyo Keiretsu Soran (Toyo Keizai) for 1991, and figures are for 1 Oct. 1990.
(7)-(9) are from FTC. The Outline of the Report on the Actual Conditions of the Six Major Corporate Groups, Feb. 1992. For example, the ratio of intra-group borrowings = borrowings from institutions within the same group/the total borrowings of member corporations of the same group.

Table 7-2 Six Major Corporate Groups' Position in the Japanese Economy
(excluding banks and insurance companies, in percent)

		1970	1975	1980	1985	1990
Number of Members		130	131	155	164	164
Employees	(share, %)	5.9	5.1	4.9	4.5	4.1
Total Assets	(Share, %)	17.5	15.8	15.3	14.2	13.6
Sales	(share, %)	15.0	14.9	15.6	16.0	15.2
Recurring Profit	(share, %)	13.6	8.3	12.1	14.2	13.7

Source: Kigyo Keiretsu Soran (Toyo Keizai), annual.