

Comparison of the Concept of Corporation between U. S. A. and Japan

Masashi Wakabayashi*

1. Corporation Concepts in U.S.A. and Japan

We have many comparative studies of U.S.A. and Japanese corporation. They have shown that Japanese corporations considerably differ in structure from U. S. corporations. (For example, *"Made in Japan"* by Akio Morita (Penguin Books, 1986), *"Made in America"* by Michael L. Dertouzos et al., (MIT Press, 1989), and the Structural Impediments Initiative Talks (SIIT) between U. S. A. and Japan.) Table-1 shows well known management differences between U. S. firms and Japanese firms.

I have been interested in how and why these differences have come out. My view is, in short, that the fundamental differences have been brought forth by the discrepancy of the very concept of "Corporation" between two countries**.

In U. S. A. , corporation might be the organization of stockholders or a property of stockholders both in reality and in terms of laws. The relations

I would like to thank Professor Takao Fujimoto, Okayama University, who gave me freely his time and expertise.

* The author is Professor in management, Faculty of Economics, Okayama University, JAPAN.

** This view is expressed in my two books both in Japanese:

1. *"Kabusikishinsha-ron"* (*The New Concept of Corporation*) 1987, Hakutou-shobou, Tokyo.
2. *"Nihonteki keieiron kara nihonteki kaisharon he"* (*From Japanese Management to Japanese Enterprise Theory*) 1989, Chuoukeizai-sha, Tokyo.

Table-1 American Management vs Japanese Management

management	Japanese firms	American firms
1. Goals	· market share	· returns on investment
2. Strategies	· long-term	· short-term
3. Style of growth	· internal growth	· external growth (M & A),
4. Organization	· organic	· mechanic
5. Main function	· production, selling, R & D	· R & D, finance, planning
6. Main member	· employees	· stockholders
7. Relation to stake- holders	· “Keiretsu” and open market	· acquisition and open market
8. transaction	· long	· short

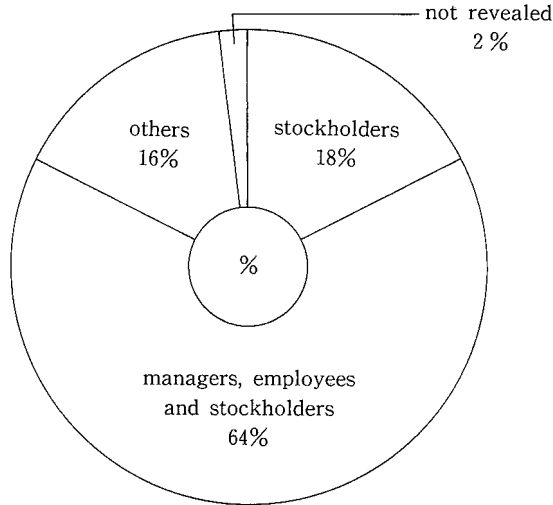
between the stakeholders such as managers, employees, workers, stockholders, suppliers, dealers and the corporation are basically short spot-transactions. This would be a traditional idea.

On the other hand, the opinions held by the majority in Japan is that a corporation is in reality the cooperative system of employees, managers, customers, suppliers, as well as stockholders(Fig-1). The main members in this system are not stockholders but employees. Stockholders have been less powerful, and employees most powerful members. Corporation is “the second home” for Japanese employees. The view that a corporation is the organization of stockholders as in U. S. A. is the opinion of the minority in Japan(Fig-1).

The relation between stakeholders and a corporation is based on long-range transactions through market competition. Lifetime employment, “Keiretsu”, and “Motiai” (mutual stockholding) have been realized by long-term transactions. Market-share goals and long-term strategies have also been constructed on them.

Therefore, the firms have been “going-concerns” or continuous systems

Fig-1 To Whom Belongs the Company ?
— Opinions of Japanese Executives —
“Survey of 100 Major Firms Presidents in Japan”



Source: “*Nihon Keizai Shinbun*” Survey of 100 Major Firms Presidents
Aug., 6, 1981.

and lifetime employment (or non-layoff) has been practised for a long time. This new way of thinking is a dominant view of managers as well as management scientists in Japan, but seems to be not so popular in U. S.

Akio Morita, too, says the following in “*Made in Japan*” (pp. 212-213, Penguin Books, 1986.) :

In Japan we believe one of the most important things in a company is the worker’s morale; If the workers lose their enthusiasm for the company the company may not survive. The employees view loss of retained earnings as a threat to their job security. We feel a company that sells its assets has no future. It seems to be difficult for some Westerners to understand this idea we have in Japan that the company belongs not only to the shareholders and managers.

2. Conflict of the Concept in Japan

Has this non-traditional concept been accepted in all economic spheres in Japan? Why is it difficult for Westerners to understand the Japanese idea? In short, this new concept, though increasing its power in every field, has still been a view of the minority in many areas (Table-2).

Roughly speaking, Corporation Law, Business Accounting, Corporation Income Tax Theory and standard economic theories have basically supported the same traditional concept as in U. S. A. Certainly the traditional theories in these branches have undergone occasional modifications.

In corporation law, a corporation means the organization of stockholders. A general meeting of stockholders is still now the top decision making center of corporation in formality.

What are reported in Balance-sheet and Income-statement in business accounting? Balance-sheet shows formally the properties belonging to stockholders at a certain point and Income-statement calculates the incomes belonging to stockholders during the period concerned.

Corporation income tax means the tax on these incomes of stockholders. One evidence of this is the elimination of double tax-payment from dividend.

Firms in neo-classical economic theory mean capital suppliers or profit-maximizing organizations for stockholders.

After all in Japan there are some fields where the new concept is dominant and the other where the traditional concept is ruling (Table-2). There have been conflicts between the two for a long time. Japanese companies are not perfectly transformed into the new systems because the new systems are not enough systematically theorized and not yet institutionalized.

As a result, as is well known, Japanese companies have kept the legal institutions of corporation alive but disfunctional. For example, general meetings of stockholders and the board of directors are systems in name only. Many people have interpreted that company profit does not belong to stockholders but to employees and company itself. In Japanese companies market share goal, long-term strategies and lean production systems etc, have been required not for the sake of stockholders but for employees and company itself.

Table-2 Majority view of corporation in Japan and U. S. A.

	Japan	U. S. A.
executives & employees	New-thinking	Traditional
management theory	New-thinking	Traditional
corporation law	Traditional	Traditional
business accounting	Traditional	Traditional
corporation tax	Traditional	Traditional
economic theory	Traditional	Traditional

Table-3 Stock Share of MITSUI Family

(soon after World WarII, unit of stock:1000)

First group companies directly controlled	Total Issued stocks	Mitsui' share %	Second group companies directly controlled	Total Issued stocks	Mitsui' share %
Mitsui(Sogo-shosha)	2,000	51	Nihon Milling	400	49
Mitsui Mining	8,000	62	Mitsui Warehouse	300	100
Mitsui Trust Bank	600	16	Taisho Marine	460	48
Mitsui Life Insur'	40	75	Nettai Industry	130	39
Mitsui Forestry	209	90	Toyo Cotton	700	88
Mitsui Shipbuilding	1,200	82	Sanki Industry	340	97
Mitsui Fine Machine	2,000	99	Toyo Rayon	705	35
Mitsui Chemical	2,430	40	Toyo Highpressure	1,300	—
Mitsui Real Estate	100	100	Mitsui Oil&fats	400	100
Mitsui Shipping	1,400	72	Mitsui Lightmetal	900	2
			Mitsui Wood ship'	200	30
			Mitsui Wood	600	100
Total & Average	17,979	63	Total & Average	6,435	47

Source: "Japanese ZAIBATSU and the Destruction" by The Committee of Destructing Holding Companies. (Hara shobou), 1973.

3. The reasons why the new concept has grown

In Japan before World War II, stockholders, especially big stockholder's families called "ZAIBATSU", were most powerful and controlled many companies. Employees were less powerful.

Table-3 shows MITSUI's stock share of 22 companies which MITSUI family, one of the biggest ZAIBATSU, directly held and controlled. MITSUI also indirectly controlled 190 companies. Table-4 shows the number of companies which each ZAIBATSU had controlled directly or indirectly.

Why has the new concept of corporation grown in Japan ?

As is well known soon after World War II, "G H Q" and U. S. A. had

Table-4 Companies controlled in 10 biggest ZAIBATSU
(soon after World War II)

ZAIBATSU group	number of companies	
	(domestic)	(abroad)
Mitsui	212	61
Mitsubishi	157	52
Sumitomo	119	16
Yasuda	56	3
Nakajima	68	—
Ayukawa	138	34
Asano	56	2
Hurukawa	41	8
Ohkura	43	9
Nomura	19	—
Total	909	185

Source: *"Japanese ZAIBATSU and the Destruction"* by The Committee of Destructing Holding Companies. (Hara shobou), 1973.

carried out political and economic revolutions, especially destruction of the big stockholder's family. As a result, big companies as many as 909 were able to be independent of ZAIBATSU's control. No countries have undergone such a drastic revolution except in recent socialist countries. Soon after this dissolution, companies started to hold stock each other for keeping independence against M & A. The above two have definitely restricted the power of stockholders.

On the other hand companies had realized lifetime employment and in-firm unions against the power of labour unions. These two have enlarged the power of salaried employees.

Both restricting drastically the power of stockholders and enlarging the power of employees have definitely contributed to form the new concept of firms. That is to say, Japanese companies have been set free to a great extent from the two big powers of stockholders and labour unions, and were able to concentrate their management capabilities on business activities for a long time.

4. Traditional system and New system

How has the new concept changed the corporation system? I think that a corporation system follows its very concept.

Table-5 shows the outline of Traditional Corporation System and New Corporation System.

The traditional corporation system in Table-5 is constructed by the theories holding the traditional concept of corporation in common in spheres of management theories, corporation laws, business accounting, corporation tax

Fig-2 Comparison of U. S. firms and Japanese firms

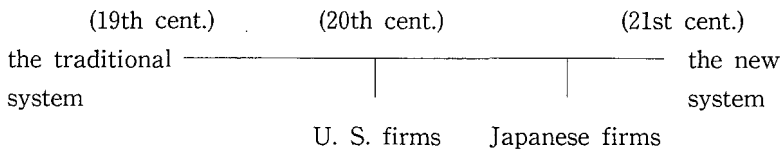


Table-5 The Traditional Corporation System and The New Corporation System

Corporation	The Traditional System	The New System
1. Corporate concept	· stockholders' org' (independent profit organization)	· salaried-men's org' (independent going-concern organization)
2. Ownership	· big stockholders	· salaried-men
3. Corporate scale	· small & medium sized firms	· giant firms
4. Stock	· membership	· credit
5. Corporate goal	· profit	· sustenance and growth
6. Life span	· short	· long
7. Social status	· private ownership	· social insitution
8. Ownership & control	· same	· separate
9. Root of control	· investment money	· management ability
10. Management style	· stockholder-based management	· employee-based management
11. Accounting	· profit accounting	· value-added acct'g
12. Corporation tax	· corporation tax	· value-added income tax
13. Economic principle	· market competition	· market competition and management
14. Economic system	· capitalism	· human-based system
15. Ideology	· individualism · stockholder's leadership · importance on stockholders' profit	· neo-groupism · salaried-men's leadership · respect for the humanity of employees

Source: Masashi Wakabayashi *"Nihonteki keieiron kara nihonteki kaisharon he"*
(From Japanese Management to Japanese Enterprise Theory) 1989.

and micro economic theories. I think it represents the original system rather than the real system, and this system has essentially been constructed not for the sake of giant corporations but small & medium sized firms.

The new corporation system in Table-5 is also constructed by the following new theories holding nontraditional concept of corporation in common: human-based management, value added accounting or social contribution accounting, law and tax theory that corporation is not in fiction but in reality, Aoki's firm-coalition model in micro economics etc. This system has fundamentally been constructed for the sake of giant firms. It shows an ideal model rather than the real system. The real system is located between the two (Fig-2).

In U. S. A. too, many big companies are not of the traditional system because they have already separated ownership and control in reality. This separation means that the basic principle of the corporation system that companies belong to stockholders, has already been destructed and in name only. However they are not at present perceived to be the new system because they have not experienced drastic economic revolutions.

Giant companies in both countries are not traditional anymore. It is only a myth at present that General Motors or TOYOTA belong to stockholders. Japanese companies are, however, located farther off from the traditional model than American companies (Fig-2).

5 . Conclusion

We have three alternatives now:

1. We will keep to "do-nothing " policy for the discrepancy between the institution and realities of firms. If so, these gaps will enlarge and cause more chaos later.

2. Giant corporations will turn back to the traditional. In my view, restricting the power of stockholders and enlarging the power of employees will be the trend of the time and the modern world. Therefore, this view is out of date.

3. We will systematize the new consistent theories. This work is not so

easy but very valuable. Fortunately enough, the new ideas and theories, though they are still minorities in most cases, have been developed in every field of both countries.

The key-points to make the new system for giant firms are the following three:

1. We are first required to perceive the discrepancy of the corporation concept among various economic spheres, each having different historical backgrounds. To know what and why will be the first step to solve a problem.

2. Ideologies and paradigms have to be changed. Big companies and small & medium sized companies should be viewed structurally as not the same but the different systems. Therefore it is necessary to develop systematic theories embodying big companies. Many new theories put forward at present will not be enough sophisticated to replace the traditional one.

3. Finally, economic laws and economic insitutions, especially big corporations will have to be reconstructed in future according to the new paradigm.

Co-determination Law in Germany will be belonging to the new system. Hewlett-Packard and "N U M M I" will be the examples of the new system in U. S. A. These cases as well as Japanese companies may show that restricting the power of stockholders and enlarging the power of employees are required in developed countries.

Therefore, the problem will not be American management vs Japanese management but the traditional economic system vs the new system.

This new system will have to be tightly assembled by many new parts theories, as a new model motor car must be tightly assembled by many new parts.