

The Analysis of the Management Control Systems in Holding Companies: Its Integrative Functions in Corporate Governance

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1. Introduction

Why does Japanese company have adopted “pure-holding company”? In Japan, there are several changing trends of business structures from 1950’s to 2000’s. First trend of Japanese business organization was to adopt functional organization in order to recover from the defeat in second world wars. After the 1960’s, the level of GNP (Gross National Products) was over the peak level of the GNP before that war, and most of large industrial business groups was to adopt multi-divisional organizations. Especially, home or Industrial Electronic products makers had produced and exported television, radio, home appliances and various parts for making such products from Japan to USA or Europe. After 1970’s, Japanese large electronics industrial companies, SONY, Matsushita, Toshiba, Hitachi and, Mitsubishi Electric, had adopted Japanese unique semi-independent divisional structure with using intra-company’s capital systems which were equal to internal capital measurement system on each division-

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basis. Firstly, Matsushita Electronics (the company's name was changed into "Panasonics Co. Ltd." in around 2004s) had adopted such system around 1960's. At that time, the main objectives to use intra capital allocation into each division for management control were to check and evaluate many divisions' performance as profit centers. However, after 1990's Japanese large multi-divisional companies had changed their business structure and management control systems into "intra-investment centers". Especially, SONY had firstly adopted "investment center as business responsibility concepts" to implement management control for each of multi-divisions. We thought these kinds of changes about management control methods from functional' cost centers, profit centers and to investment centers were that top management realized the methodology for controlling business units with being scale-up and business manager's performance evaluation.

We think those kinds of organizational design's change or evolution were very important as we, business scholars, tried to understand Japanese management control models. Especially these changing trends of organizational design were repeatedly studied by our Japanese management scholars as "Japanese Decentralization problems" about that business bankruptcy of several large-scale financial companies had occurred, for examples, the defaults of "Daiwa Bank, Long term Credit Bank of Japan and Hokkaido Takushoku Bank". That is "Gosou-Sendan-Housiki" which means that industrial group management with a large bank as a center had broken. Also, there was also "big-bang" of world financial system, and Japanese industrial law for anti-trust was abolished and Japanese government had authorized new anti-trust law and recognized pure-holding companies' system in 1997.

We thought there were two main dominant cases for setting up pure holding companies in Japan after such big change of business group management. The first is that Japanese companies can try to set up pure holding company systems only to control subsidiaries as like equities holder who could delegate more responsibility into division's manager who can do good profit management. The second is to set up more number of subsidiaries after merger or acquisition (M&A) for making synergy or getting larger scale in some business domains. Also, the one of main objectives to set up pure holding company is to promote decentralizations with more autonomous business units. After 2000th Top management of large-scale industrial firms would also consider this type of organizational re-structure to be very effective for dynamic business rearrangement (Shimotani (2009), p. 21). Thus, we are concerned with how such pure holding company have tried to do corporate governance under "pure-holding structure". Especially our main concerns are related to how management control system is designed under

such pure holding company.

2. Old but New problems: Sub optimization problems

Originally, according to traditional responsibility accounting, top management only accept profit responsibility under functional organization, thus, there are often sub-optimization problems under such organization structure because head-quarter or top management can only manage goal conflicts between sales and productions department. On the other hand, under multi-divisional or subsidiaries group system each division has independent authority against another division or head-quarter. It is easy for head-quarter to measure each division's performance based on profit or divisional ROI. However, there might be some wall between each division or subsidiary and head-quarter, because top management of head-quarter could not see the activities or decisions making to be relevant under each division. Especially as each division manager seeks to optimize short-term profit maximizations, head-quarter could not make strength corporate governance or centripetal force, and new type of sub-optimization might have been occurred between some divisions. Thus, there are two types of policy or methods for top management to adopt against such sub-optimization. One is to execute corporate or group strategy for top executives in holdings with using middle range profit plans and budget or doing financial management as top-down-like with the support of divisional controller. Other way is to make some windows between some kind of wall in each division with using some information from management control systems and with making interaction between divisions or division and head-quarter. The former is concerned with management control system under traditional centralized decision making. According to latest research, the latter is concerned with intra-incubation activities or making new market development with the interaction between head-quarter and divisions. However, we though most of cases indicated the main functions of management control systems is to disjoint corporate strategy into detail objectives and financial plans or performance evaluation measures. Such measures are expected to promote goal congruent behavior in division's manager or business managers if they accept their own formal performance measures as their own goals. However, under information un-symmetry about environmental factors between divisions and head-quarter, there are possible for sub-optimum results to occur between total company's goal achievement and sum of each division's achievement. For example, if some business units would be getting be matured, the manager of such units usually try to start new product development with not

ending such matured business or with continuing such matured one. As the different case, if one old business unit try to set up new business with reporting the mixing old and new business unit's performance into total results, head-quarter could not divide new business into independent one as division manager deliberately try not to disclose new business performance. For example, "3 M" company try to use a skunk work as one method of setting up new business action, but it is often said that such action could not be successful or is absorbed by old one. Business-subsiary or department try to grow main business or to deploy new business with the development in head-quarter as a new seed or with M&A of new business from out-side market.

3. The balance between centrifugal force and centripetal force

To solve the sub-optimization problem as whole of company, we think to keep the balance between head-quarter's centrifugal force and subsidiary's centripetal force. We could find an example which indicates a company abolishing pure-holding company systems and moves into "intra-divisional company systems". According with our interviews about the reason of returning into intra-divisional systems from pure holding company systems, there is too weak centrifugal force in head-quarter and some kinds of independent firm's behavior or decision making could be found in such a subsidiary. In such a case, the subsidiary independently manages his resource and could collect some funds from bank with his own name. This kind of examples are often found in Japanese oversea subsidiaries. Also, if, head-quarter of pure holding companies would like to control independent-like behavior of subsidiary, there would be frequent interferences about daily business, or frequent demands for reports into over-sea subsidiaries by head-quarter in Japan. In the case of Japanese enterprises to be enlarged during short period by means of buying over-sea subsidiaries as M&A, although these enterprises are under high level of decentralization, there are possible for head-quarter not to have enough management control systems to induce subsidiaries to do new strategic development for adopting new environment.

In the opposite sense, we can hypothetically think that successful head-quarter might have strong centripetal force against subsidiaries' strong centrifugal force of them.

Thus, we think how to build management control systems under holding systems is one of our research theme in this study. Also, we need to consider the combinations of various subsystem of management control systems as well as responsibility accounting systems.

However, as the first approach to understand management control systems of pure holding company, we try to consider the elements of both centripetal force and centrifugal force.

4. Centrifugal force and Centripetal force

4.1 The reason of holding company's system not to be functional

There are several reasons of holding companies not to achieve good performance in Japan. Here we try to pay attention into the followings.

Firstly, the problem is that the head-quarter of pure holding companies does not make full function of his own role. Secondly, such subsidiaries do not see the whole business structure because there is high wall between each of subsidiaries than the wall between intra-companies. Thirdly, there are some lack of performance evaluation systems, and subsidiary's executives tend to put high priority on his own company's performance rather than whole group performances. In this paper, we try to pay attention into the first issue.

4.2 The balance between Centrifugal force and Centripetal force

We think that one of reason why Pure Holding Systems has not done good performance in Japan owes to the unbalance between centripetal force of Head-quarter and centrifugal force of business subsidiaries. We often find such a case of that generally centripetal force of head-quarter is weaker than subsidiaries' centrifugal force. When each subsidiary achieves his own goals or targets, head-quarter (means pure holding company) does not exercise his own power on subsidiary's operational work. Rather, he timely accepts the performance report from subsidiaries and if he finds some problems or questions about subsidiary's results, he asks for additional reports from local financial or accounting staffs. There is very rare case for head-quarter to intervene into a problem about business problems or supply chain problems. Thus, autonomous daily business decisions are done in each business unit (=subsidiaries) semi-independently, the business unit's manager considers head-quarter as looking like as if it were overhead departments or stockholders because he supplies services for each business unit or demands his dividends. Thus, how much of the degree about the power balance between centrifugal and centripetal will be decided by the extent of keeping, using and the influences on such resources between business units and head-quarter. We indicate the kinds of such powers under Table 1.

As we show the contents of centrifugal and centripetal power, the centripetal power of

Table 1 The concrete example for getting centripetal force and centrifugal force

Holdings' centripetal force	Function of each force	Subsidiary's centrifugal force
Holdings to have the right of BU's president	Human resource affairs	BU to have the right of human resources
The right to raise funds or allocate them	Funds raising	The degree of BU to be able to raise funds from market by himself
Dividends from business units, and the payments from BU for services received from holdings	Revenue of holdings	The pricing or the amounts to be given into BU to do dividends or payments for the received services and the allowance of retained profits to be recognized in BU
An authority of investment decisions	The amounts of capital investments	The degree of BU's manager to do capital investment by himself (maximum amounts of cash to do investments)
Corporate strategy planning and the intervention into each business unit strategy planning and implementation	Strategic planning and implementation	Business units' strategy planning and implementation
The extent of functional intervention for auditing into business units	Auditing	The degree of participation from Bus into holdings' auditing into them
The ratio of holdings' total staffs to temporary transfer into business units	Officer's positions concurrently and sharing information	Whether BU's president can have a position in holdings directors' board or not.
The number of holdings staffs, and the number of functional roles of HD, the value ratios of total real estates to be registered in the name of holdings	The relative scale between Holdings and Subsidiary	BU's sales or assets' volume and the extent of BU to hold real estate or intangibles
The degree of corporate philosophies to be spread into all of staffs, or the existence of charismatic leader	Management doctrine and executives	Whether BUs have own management climates or unique president

Note : See the source at the summary in "Asada et al. (2008), (2009)".

headquarter and the centrifugal power of business units mean the relative one or the degree of influences on some resources. According to these arguments, the relationship between head-quarter and each subsidiary is decided by the following factors; (1) the beginning relation on the holdings system to be born. (2) the top-management policy, (3) the extent of demands or pressure on subsidiaries by the strategies of top management, and stakeholders' pressure (including main debts holders, equity holders, and employees).

However, if we pay attention into the degree of balance between centrifugal and centripetal powers, there are four factors to be very important for us to know holding management to be functional. The first is the power of head-quarter to be access into investment funds, the second is the policy for executives' employments and assignments, and the third is the relative scale of each subsidiary or the distribution of them against head-quarter (which means there are no dominant player in each subsidiary), and the forth is the designing power or strategic intents of head-quarter.

4.3 The need of centripetal force to be made strength in holding company

Where is the reason as the centripetal force to be weak? We try to check the reason of that some pure-holding companies have weak centripetal forces. According to our surveys into manufacturing companies in Japan around 2006-2007th, as well as some other research's projects' results.

The first is strategic organizational design's problem; One company has no clear policy for classifying corporate center's function and service center's function and one of the former functions is separated from head-quarter (Yamada, 2010). This indicates that a head-quarter which have weak centripetal force could not have clear policy discerning strategic functions and common operational functions. As the results, such company which has no clear policy about such forces to be discriminated made unnecessary business units which mean there are too much number of subsidiaries. For example, Hitachi Co. Ltd., Fuji Electric Holdings Co. Ltd. And Japanese general trading companies in 1990th had done such policy.

Second is that top management of pure holdings tried to make scale-down of head-quarter, and head-quarter could not do the role as basic strategic center. This case was found from New Life Group which was changed into the name of LIXIL Co. Ltd in July 2nd, 2012 and also JX group.¹⁾

1) Financial details of each segments from Consolidated balance sheets is checked by corporate.

Also, it is better that some functions of business subsidiaries should be centralized into head-quarter of pure holdings. As some examples, we could indicate that research and development functions should be centralized and they could develop several kinds of new business. Business units or subsidiaries could develop new products with using such seeds or new technologies and also if head-quarter of pure-holdings could obtain new intangibles from such idea development, it could gain more strategic power. Also, there are synergy effects or economy of scope with saving costs of R&D activities not to be done under multiple business unit sites. Of course, according with the business paper or president message of holdings company a number of pure holdings company often say this cost saving effects under central R&D of holdings, but looking at Konica-Minoruta holdings case, there were the diversity of development activities under R&D subsidiaries before two companies to be consolidated, and we knew there were insufficient rearrangement of such R&D activities after the consolidation. We also think that the redeployment of personnel beyond each subsidiary is impossible without the right of personnel management under head-quarter of pure-holdings. Because manager don't like to accept transferring good human resources into another subsidiary. To do such inter-division's allocation of human resources, head-quarter must have corporate database for human resources including personnel information and each personal carrier plan. Thus, to do strategic human resource management, head-quarter must have centralized authority for redeployment of managers. Finally, if head-quarter could not smoothly allocate financial resources and core-human resources, the sub-optimization of such resources allocations will be occurred. According to our surveys, Dowa holdings group takes full efforts to solve communications' gap problem and to do the full agreement of strategic decision makings among managers.

4.4 The methods for centripetal force of head-quarter to be reinforced and the abolish of pure holdings system

I understand the transfer from pure holding company to business holding company that is thought to be not the abolishment of main head-quarter's functions but to be intensified in a controller and top executives and their work to check the details of business units' performances as first steps of controlling should be done by them and these feedback is returned into the details of local management and local controller. However, Lixcil and New-life group are said to be very weak for such central-management.

We try to explain the reason with a case: of that Fuji Heavy Electric Co. Ltd. made business

holding company in 2003 from pure holdings company. According with this case, Because of no advancement of business cooperation or of human resource exchanges between subsidiaries and as a result, there are business efficiency to be worse. Top management of pure holdings company need to strengthen centripetal force as a group and the head-quarter of holdings absorbed Fuji Electric Systems Co. as an intra-division and pure holdings company changed into business holdings company with core business of “energy and environmental businesses” in April, 2011.

Of course, we look at the cases with the abolishment of pure-holdings Company, there are several different reasons about such changes. We think there is one of such change not to be the failure of pure holdings company system. One company try to make diversification and top management had changed from such strategy and had adopted focusing strategy and there was no significance of “pure-holding company system”. This case indicates the proposition of “organization follows strategy”.

For example, Okuma Holdings Co. Ltd. consolidated into one company from three subsidiaries which were named as Okuma Houwa Machining Co. Ltd, Okuma Engineering and Okuma subsidiary. This case can be interpreted as temporal integration for group restructuring into the final organization. Also, we could see the same case in Maekawa Manufacturing Company for adopting into new environmental condition which means the reorganization from decentralization structure into one functional structure. Also, if we look at the case of Sojitsu Corporation which was realized from the integration from Nisho Iwai Trading corporation and Nichimen Trading corporation, there are possibility of holding company as temporal tool during solving some conflicts between such two companies and finally Sojitsu become into intra-divisions’ business units.

On the other hand, it would be problem how such company could continue holding systems which had adopted such company system and repeatedly made such organizational rearrangement. Thus, whether they could keep holding systems depend on the strength of head-quarter of holdings.

Thus, we try to study how a large-scale company could make strength of head quarter by the two cases of “AEON Holdings” and “Seven and i Holdings”. These two companies need holdings company system because of making and growing the large-scale merchandising by means of business re-constructing. In other words, they need and put management resources on head quarter of holdings company and try to produce synergy effects from such resources or value creation by means of maneuverability. We try to explain such case in the next section.

5. A discussion of Holding Company Systems from the case of “AEON ” and “Seven and i Holdings”

Why two companies had adopted pure holdings system? We try to explain two companies' strategy and business model. Also, we want to explain the characteristics of holdings system and how to make the enhancement of centripetal force.” AEON Holdings” and “SEVEN and i Holdings” companies belong to retailing business segments with various goods shops. AEON is No.1 Company and Seven and i is No.2 company of retailing business about the sales volume in Japan. Two companies do decentralize their business operation decisions into each business segments which mean virtual business group to be divided by three or four business segments; retail mall business, food shopping retail business, general shopping store business and Financial service business (bank). As we said each business segment have divided into subsidiaries which are managed by management of regional or national legal entity. So, we think that the autonomy of each subsidiaries is relatively high if you would compare retail business with manufacturing business in Japan. The holdings of such group must have exact and speedy monitoring system to check the performances and to order managers of each segment and each subsidiary. The head-quarter of holdings often demands financial results of each subsidiaries.

5.1 The effect of “holdings system” is doubt for effective management of large group companies

Both, “AEON and Seven and i” have high possibility of doing direct investment into over-sea markets because there is mature state of domestic consumer markets in these days. If I had to compare the two groups, I would say AEON holdings are said to be growth orientation and Seven and i holdings are to be profit conscious. The former is to make active M&A and to make various kinds of shops owing to the characteristics of marketing area in over sea market, especially China and ASEAN countries. Their main business for retail marketing is developed into specialty store, super markets, convenience store and department stores. They try to make more synergy with the additions of consumer financial services, mall developer and information technology services which are directly controlled under holdings as subsidiaries. Thus, we think holdings system is effective and important character to do business portfolio management. Also, the latter of two companies also has general store subsidiary, department store business and convenience store business group. Especially Seven and i holdings has very

strong business segments, that is, convenience stores business.

We think that the goal of setting up pure holdings company in Japan is to make the centripetal forces strong with keeping some resources centrally; human affairs, financial resources and data or information's resources (The Nikkei Veritas, 2010, p.14). However, looking at the financial data of AEON Holdings, I do not see the financial performance of AEON Holdings which was reflected from such centripetal effects in February 2010. On the other hand, looking at the financial performance of Seven and i Holdings, this company performance is better than the results of AEON holdings. We think that the main reason of such differences about financial performances depend on the superior or strong convenience store business units in Seven and i holdings. However, roughly speaking about such differences of two groups performance, we could put the two companies in the similar position about financial results and also global investments into oversea business is not enough for these two companies.

Thus, we try to discuss the reasons why these two companies did not have realized the intention to adopt pure holdings company system. Originally, in February 2006 Seven and i groups had transferred into pure holdings company from industrial company with having some subsidiaries and in June 2008 Aeon pure holdings was to start from industrial company with subsidiaries to pure holdings. However, looking at the sales volume of two companies, Seven and i holdings had increased sales volume from 2007 to 2008, but after such period their sales volume had decreased. Also, Aeon holdings also had increased sales volume from 2006 to 2008, but in 2010 their sales volume became decreased a little. Looking at Operating profit of two companies, Seven and i holdings had decreased and leveled. Also, Aeon holdings had shown the similar situation.

Judging from the reasons; we think that the substantial rise of raw materials price and commodity prices increasing from January 2008 to February 2009 and the disorder of financial crisis in USA and the influence of such disorder into European and Asian Economy had reflected into two companies' economic performance.

Also, looking into the rate of gross capital return, we think the transformation from business holdings groups into pure holdings group in seven and i group as well as Aeon group had no clear positive impact into such figures of two groups. Looking more detail figures of financial performance indicators of EV/EBITDA of Seven and i Holdings, the result is lower than the average figure of it. Thus, our tentative conclusion of financial performance of this group is that the scale merit through business diversifications could not increase corporate value and

introduce conglomerate discounts.

The ROEs of Seven and i Holdings as well as of AEON is less than 10 percent's, if we compare two companies with European and American big retailers, Costco or Tesco, we can say two companies' ROEs are said to be too match low. (Nikkei Business 2008, 2, 18. p.18)

5.2 The course from Business holdings to Pure holdings and Organizational rearrangement

5.2.1 The details of Aeon group from business holdings to pure holdings

We think the business model of Aeon group is to make progress of scale volume under increasing the number of domestic retail shops, and also is to get complimentary effect based on real estate development which means shopping mall development and retail financial services (see Table 2). Thus, they recognized their retail sales profitability is to be low, but try

Table 2 The Financial Summary of Aeon Holdings and Seven and i Holdings
(From 2007 through 2011)

Aeon's financial summary

(units: Million Yen)

	Feb.2007	Feb.2008	Feb.2009	Feb.2010	Feb.2011
Sales Volume (million Yen)	4,345,308	4,650,088	4,706,069	4,542,599	4,561,748
Current Profit	188,303	166,326	126,030	130,198	182,080
Net Profit After Tax	57,656	43,932	-2,760	31,123	59,688
Net Assets volume	1,200,783	1,167,477	1,105,712	1,144,434	1,219,236
Total Assets Volume	3,534,346	3,591,406	3,741,447	3,785,288	3,774,628
Net Profits per stocks	77.31	55.75	-3.61	40.68	78.61
Return of Equity(ROE)	7.3	4.9	-0.3	3.7	6.9

Seven and i Holdings Summary

(units: Million Yen)

	Feb.2007	Feb.2008	Feb.2009	Feb.2010	Feb.2011
Sales Volume (million Yen)	5,337,806	5,752,392	5,649,948	5,111,297	5,119,739
Current Profit	282,016	278,262	279,306	226,950	242,907
Net Profit After Tax	133,419	130,657	92,236	44,875	111,961
Net Asset Volume	1,969,149	2,058,038	1,860,672	1,793,940	1,776,512
Total Assets Volume	3,809,192	3,886,680	3,727,060	3,673,605	3,732,111
Net Profits per stocks	142.90	137.03	100.54	49.67	126.21
Return of Equity(ROE)	7.6	6.7	4.9	2.6	6.5

to invite high profitability professional shops into his mall and intend to get rents from them. The main shop of Aeon group is "super market" to sell foods and grocery and most of tenants in his shopping center is to sell value-added goods than the grocery shops and the customer are used to buy such goods by means of credit sales. So, Aeon had supported credit or financial service business. However, looking at the financial reports of Aeon holdings in 2010, the segment of professional shopping service shows the operating net loss.

As the enlargement of sales areas by Aeon group make the expansion of his own assets and liability, but owing to the domestic economic worse, there was no expansion of sales volume. Also, in 2006 the government legislated new regulation over the shop with more than 10,000 square meters, the number of opening new shops in the mall located at a suburb had been decreased. Also, the average loan rate was down into 18 percent by the revisions of loan business rate. The results of such regulation revision made negative impact on the financial performance. Aeon as well as Seven and Ai holdings had changed his policy from enlargement of shopping centers to restraining the speed of opening new shopping center or closing some shopping mall to show the loss in 2007. According to the business journal in 2008, Aeon had to face direct financing business to be difficult (Nikkei Business 2008, 12.8). According to the down of economy, and most of managers have faced no enlargement desire of domestic markets and the adoption of pure holdings company by business holdings' group had increased and most of large scale business consider no hope of domestic market to become growth and it is natural that most executives of shopping market consider the oversea business deployment from no desire of the growth in domestic markets.

Owing with an interview on a manager of one of our researched pure holding company, he said that top executives had made more focusing into strategic business units which must be developed and they made some business units which need more autonomy to be necessary decentralized and delegate more.

We think the focusing means collecting decision making authorities into head-quarter, and in some cases shared-services units are used for some business unit's overhead-department in order to be more efficient. One of the reason why a company have adopted pure holding company systems is that organizational rearrangements become easier. For example, under the Aeon business holding company before such change of governance had been introduced some kind of mixed management between Aeon retail business and other business (including Aeon mall, financial service company and Aeon supermarket subsidiaries). After adopting pure holding company system, most of retailing or any other business units are equally managed

under pure holding head-quarter. That means the equalization of management or each subsidiary are managed just like a loose federation of independent states.

5.2.2 The difficulty of making 100 % controlling of core subsidiaries in Aeon and Seven and i holdings.

The way of organizational rearrangement to promote centripetal force on subsidiary is to abolish doing public of such company and a parent company make such subsidiary into one to be fully controlled. However, we think doing such action is very difficult for management team of parent company. For example, if Aeon holdings would try to buy total shares of Aeon Mall, he must announce TOB in stock market, and Aeon holdings need a large sum of money with premium value. If it would be very difficult for doing such action, Aeon management could do the exchange of stocks between Aeon's share and a subsidiary's share. We think the exchange of stocks is very difficult in Japan. For example, looking at the failure of such actions between Suntory Co. Ltd. and Kirin Co. Ltd., there are possibility for them not to agree with exchange rate of two companies' share.

5.2.3 The process of Seven and i holdings going into pure holdings company and Organizational arrangement

Seven and i pure holdings was established by two companies; Seven-Eleven Japan and Denys Japan in September 2005. Owing to our hearing examination with manager of Sven and i holdings, this company's principle is to do business by himself as corporate culture. But, after buying department store, this company tends to do M&A in capital market. The company from the following situations tried to adopt pure holding company for making M&A or organizational rearrangements.

In 1990's and after the burst of economic-bubble, the performance of Itoh Yoka Do Co. became worse, and Itoh Yoka Do had had the parent position for Seven-Eleven Japan with 70 percent share of stocks. If some stock holders would like to buy mass share of stock of Itoh Yoka Do, they might do the dominant role to Seven-Eleven Japan as share- holders of Itoh Yoka Do. In these days, the market value of stock of Itoh Yoka Do was less than that of Seven Eleven Japan, the management team of Itoh Yoka Do considers the necessary to correct such reversal situation of two companies' values. They made pure holdings company on two retailing companies; Itoh Yoka Do and Seven Eleven Japan, and total rearrangement they also tried to buy out a department store (by our interview, November 27th, 2009).

This kind of organizational restructuring change each retailing company to be equal from the viewpoint of holding company and made some shops of Itoh Yoka Do Ltd. being abolished

because of being deficit. This kind of organizational rearrangement indicated that supermarket had got 4 % sales ratio of group total sales volume but was invested 36 % of group total amount of money (Nikkei Business, 2005, August 8th, p. 43).

We think this organizational rearrangement means to dissolve the tendency of mutual dependence between Itoh Yoka Do and Seven Eleven Japan by means of becoming independent business segments (Nikkei Business, 2005, May 16, p. 20). Seven and i bought Millennium group which are composed of Seibu department stores in the end of 2005, and the objectives of Seven and i holdings was to enter new department segments and top management group of Millennium wanted to keep a feeling of trust from major stockholders. We think the top management of Seven and i holdings did not try to scale up by additional M&A of department store group but considered to keep the possibility of new business creation through consumers' information sharing between different type of retailing businesses up, although there was consumption to remain low (Nikkei Business, 2006, January 9th, pp. 6-9). After such period of restructuring of business, Itoh Yoka Do's subsidiary of Seven and i holdings withdrew clothing segment which was the main segment, and the half of retail stores being closed because this subsidiary showed the red results during the first half period of 2010 (Nikkei Business, 2010, December 20).

5.3 To put management resources together and Value creation: goods to be uniformed by Private brand, and Sharing of management information

5.3.1 Aeon's diversification and federation management

Aeon group had developed by diversification of segments. The main sources of competency are scale economy which means to improve purchasing power, or price negotiation power against maker or manufacturing companies. Then, looking at the note of settlement of accounts of Aeon group in February of 2011, their total retailing sales volume were 69% of group total sales volume and operating profit of retailing was 48% of total operating profit. However, each of the operating profit ratios of developer segments and services segments which include financial services and travel agency services etc. was 23% and 25%. Less than half of profit totals was achieved from non- retailing services.

Aeon group was said to recognize much autonomy on subsidiary's own management, because there were certain considerations about diversification route or M&A process in Aeon's management. These type of management is called as "loose solidarity" or "federal state management". Looking into detail of subsidiaries, there are not a few of subsidiaries to be

applicable with equity method. For example, there is significant subsidiary, "Maruetu" which are listed in the stock market. Also, there were 18 firms which were listed in Tokyo stock in February 2011, and 23 domestic firms or 4 oversea subsidiaries which were applicable with equity method. We think much of centrifugal force of which are strong because such listed company had financing capability. Also, as each shop of retailing subsidiary had authority for making composition of goods, and there is high autonomy in each shop. Thus, Aeon pure holdings would like to share up the volumes of private brands, however, each regional company selected his own optimum selections of merchandise based on his market or customers and Aeon group original private brands are not selected in such regional shops or subsidiaries. Judging from such marketing trends or each product's brand share of total group sales volume, we can say that Aeon group has strong centrifugal force with weak centripetal force (Nikkei Veritas, 2010, p.15).

5.3.2 The strong centripetal force and controls of Seven and i Holdings

Seven and i holdings has very strong centripetal force in comparison with Aeon Holdings and Seven and i has done top-down effort's. One of such example is indicated from that Seven and i holdings has managed finance and master budget under the head-quarter of this group. As most subsidiary except for Holdings and Seven bank is not listed under Tokyo stock exchange, it means most of subsidiaries are managed by pure holdings company or head-quarter of Seven and i group. Head quarter of Seven and i holdings had marketed "Seven Premium" brand of various goods to make private brand strong with the same strategy of Aeon group (May 2007).

This private brand is the result from group transversal product development efforts, and such development are done beyond each subsidiaries' category.

In 2009 "seventy-four teams" has done each good development of "Seven Premium". Each team is composed of merchandise buyers from various subsidiary, for example, Seven and Eleven (convenience store), Itoh Yoka Do (Super Market), York Benimaru (super Market). Also, such team not only have developed product development but also have studied supply chain management, demand forecasting, sales planning, etc. of Seven Eleven Japan. Thus, Seven and i Holdings have developed the know-how of Seven Eleven japan into another business segments by the use of his centripetal force. Also, Millennium Holdings as subsidiary of Seven and i holdings had demanded York Benimaru subsidiary to reform Seibu department store in Ikebukuro. The main goal of such strategic cooperation by York Benimaru to Seibu Department Store is concerned with how to use the feedback information of customers' trend

under the principle of face to face selling which was the traditional selling way of Japanese department store (Nikkei Business, 2009, Feb. 2nd, pp.34-36). We can say this case shows the transfer of knowledge and resource beyond each business model or business boundary.

5.4 The organization for Control: human resource and organizational management

5.4.1 The characteristics of Aeon Holdings top management organization

One element to decide the extent of holdings' centripetal force is whether executive of holdings has dual role with doing executive role in business subsidiary. From doing this hearing research, in Aeon Holdings Company there are no any manager as full-time manager. The reason of that there are no such managers in holding company who is leaving for a subsidiary is there are salary gap between business companies or subsidiaries. Also, we think that there is information sharing between managers who are familiar with subsidiary's business and who are detached from subsidiaries. However, it is possible that no separation between director's function for each business subsidiaries and execution function of subsidiary's business and we may think that dysfunctional effects for corporate governance of holdings company may be produced. Of course, there are no managers who are appointed as full-time manager. But, Aeon Holdings need persons who can check total results of each business, and there is a kind of place for a manager to be educated or go through senior management days. But, looking at the pattern of managers' rotation, most of such movements was done in the same business segment and there might be some problems for training senior managers.

As concerned with the framework of corporate governance, Aeon Holdings had established four committees; board of directors, auditing committee, reward committee, and nomination committee. In board of directors, more than half of directors are selected from candidates of outside directors (five persons are outside directors of total nine directors in April 2011). A manager said that to do more mobility decisions our company decided to reduce a number of a few directors which means that averagely more directors are appointed or prepared in the same scale of this company.

We can recognize that to reduce the number of directors may save the delays of decision making owing to diversification strategy or "loose federation management". On the other hand, we think that introducing outside directors' system indicates the expectation for intensifying corporate governance.

5.4.2 The characteristics of Seven and i Holdings' top management organization

Seven and i Holdings are managed under the following governance structure, executive officers' system and auditors auditing officer system. In May 2010, the board of directors were composed of 15 directors and 2 of them was outside directors.

Also, 13 persons as executive officers are nominated for prompt decision making and executions.

The board of directors with executive officers' system can pay full attention into "planning management strategy" and "supervising operating execution of officers", and they (directors) are not obliged to do execution management of strategy, so they can monitor executive manager's results or process. Also, the staffs of auditors' office must direct or assure internal auditing for subsidiaries and also audit the management of holdings. In addition, with such offices, there are some staffs to evaluate internal control system of group companies in Seven and i holdings company (Seven and i Holdings CSR report, 2010, p. 20).

5.5 International strategy and synergy

5.5.1 Synergy effects through Aeon holdings' oversea developments

The reason of Aeon group to do overseas development is owing to the following reasons; a feeling of being trapped in domestic market, the high raising of Yen appreciation, and relatively less cost of workers in Asian countries. Aeon group has developed into Southeast Asian countries or China. They consider Chinese, the Asian nations, and Japan to be one market and has supplied high quality places, high quality goods and financial services. In China, Thailand, and Vietnam they also have supplied private brand's goods as the name of "Top Value goods".

Thus, we think the synergy as group of Aeon Holdings Company is produced from using the group common functions or infrastructures. For example, Aeon group has introduced shared services in management functions by the connection of subsidiaries as like one company. Aeon Holdings Company has summarized accounting or human affairs activates of each subsidiary into one business unit under regional core company and promoted more efficiency of sales promotion and customer files management by means of Information technology.

In Japan one shared service company was established in 2008 as the name of "Aeon Top Value company" to integrate the supply chain of "Top Value Brand", which means product development, raw & materials purchasing, manufacturing and marketing. The reason of setting this company is that they make the windows between each functional department and

subsidiaries. Also, they established not only “Aeon good purchasing company” to summarize the total demand of each good but also “Global Supply Cain company” to support nation-wide logistics network (Aeon 2010 group profile).

According to 2011’s new mid-range management plan of Aeon group, they had established three regional head-quarters, China, Southern Asia, and Japan, they would supply a kind of regional integrated services for finance and commerce shops. On the other hand, they should have decentralized such functions if it should be decentralized. For examples, recruiting local managers based on each country or nation and entrust them with almost all of management decision making. We could say that they adopted multi-federation management in international business strategy.

5.5.2 Seven and i holdings’ overseas developments

Judging from our interviews into this holdings’ managers, they could not prepare the full systems for overseas’ business development, and they could not establish some local subsidiaries. In China, the subsidiary is managed by hybrid-system which means mixing three factors, local capital and Japanese management and Chinese employees.

However, looking at the data source of this company, they had established convenient business in Northern European countries, Southern Asian countries, Australia, China, Korea and North America (Nikkei Business, 2006, Sep. 4th, p. 28). Owing to the third half-quarter financial statement in 2011, the number of Seven Eleven Peking Co. shop in China are 91 in the end of September 2011 and the Seven-Eleven Inc. in Northern America had 6,505 shops in 2011. Owing to first food development, and private brands sales or developments, there was steady sales growth. Also, in the second segments, super-store business, they had developed 13 stores in China, the financial performance showed operation loss in September 2011. New shops development had produced more costs than operating revenues, and also, more loss had been produced after the conflicts of southern inland problems in 2012.

A report of the president, Toshifumi, Suzuki of Seven and i holdings said, “when we try to develop convenience shops in overseas markets, we consider such business to be domestic and more volume of consumptions has been realized, more local pattern in consumptions are realized.” And he said that we need to change shops to adopt new pattern of sales contents or sales volume.

According to his reports. in Japan or USA only to increase the number of such convenience shops is no significant for keeping business and to close no quality shops and to entry new shops in local market is necessary. The owners of each shop try to analyze own shop’s market

and try to buy goods under his own risk. As the results, owners had changed the lists of goods by themselves (Nikkei Business, 2006, Sep. 4th, pp. 46-48).

The strategy of developing new shops is very different from Aeon, national-wide strategy, and they have adopted local focusing strategy, that means developing shops in specific local markets. In Peking of China, Seven Eleven Co. had developed shops in relatively high-income family's living areas (Nikkei Business, Sep. 4th, p. 33, p. 47).

Making summary of the interviews or articles of Japanese weekly magazines, we think top management of both, Aeon and Seven & i group had strong will to develop oversea business or choose global business strategy and to adopt "Pure Holdings Company" and to stop business holdings company is strong message from top management to employees as well as stakeholders. Also, we think that the practical merits of adopting this new organizational structure is to make all of business units into the same level and it is possible for management of holdings company to abolish shops or subsidiaries by means of each segments' disclosures. In Japan, most of consumers market is shrinking because of decreasing young populations in all regional areas since 2000th.

6. Making strong the holding's Centripetal force and Management Control systems

Based on our case study for two retail companies above, we can say main points for "the organization to intensify centripetal force of head-quarter" and Management control system with such organizations.

6.1 Organization, human resource management and sharing a sense of value

The methodology for increasing centripetal force is related to the following (a) through (I) .

- a. To construct horizontal organization across each business units.
- b. Implementing several kinds of conferences
- c. Doing regular movement of managers between holdings and business units or between business units.
- d. Hold two posts of holdings officer and executive of business unit (Subsidiary) by a person (owners' family).
- e. Setting the office and the hours for face to face communications between managers
- f. To train persons to be a generalist for communicating between business units.
- g. To train managers to be a specialist with financial engineering, accounting and

human affairs etc.

- h. To restrain negative effects of a results-oriented approach which means focusing only his own department's performance.
- i. It is necessary for establishing holdings' office to purview for officer affairs.

These kinds of items are to explain the necessary conditions for managers to make common platform who belongs to subsidiary or holdings in order to promote common sense about each other problems or common sense of some problems.

6.2 The main player for getting fund resources and the allocation methods or the main player for getting debt's based assets

The second way for making holding company's centripetal force more strengthen is to grasp the authority of both preparing funds and allocating such ones into subsidiaries. The revenue of Holdings comes through the dividends from business subsidiaries, and the payment for using holdings' services from subsidiaries. On the other hand, if a subsidiary would go public, it could directly collect funds from stock exchange markets. If a holdings company would desire that a subsidiary could independently collect funds and enlarge his business-scale with getting more customers, such independent activities of subsidiary would be allowed from a holdings company. However, if such pure holdings would consider the necessary of getting more centripetal force, they would make subsidiary into 100% owned one and not recognize as the necessary inside funds in a subsidiary as well as demand more ratio of dividends from it. Thus, if a holdings company could set up the drawing up funds from a subsidiary, he could control subsidiary's power. However, if there are no opportunity for an executive of subsidiary to be able to do autonomic managerial role and also no mechanisms of motivating such leader, there would be no positive effects of decentralization management. Thus, top management of holdings company are not concerned with each individual management concerns. he could do capital-profit-management based on the short-term EVA and ROI measurement with keeping the authority for the amount of capital increasing or the right of approval for a subsidiary to get funds as debt finance. He also gives the goals and the targets of Debit and Equity ratio or the balance efficiency about assets, debt and capital to subsidiary's executives, after that, they can be conscious about ROE's targets and be conscious about financial risk by D/E ratios' increasing which will be shown under income statement of a subsidiary as the down of operating profits. Summarized up the explanations above, we think physical feedback management has done by financial data which means the performance management of

subsidiary has done by means of balance sheet and income statement of subsidiary.

However, there may be some different insights by means of Aoki and Miyajima (2011) who study of “Japanese enterprise governance”, According with his arguments, they said “the degree of decentralization with perfect subsidiaries is statistically higher than that the one under internal divisions or business units and such differences of the average scores about between two kinds of organizational structures are measured by two items, the degree of decentralization about strategic decision making or high-ranking managers’ affairs. There are significant differences about the distribution of decisions authority between decentralization as internal organization and decentralization with parents and subsidiaries.” (p. 266). However, looking at this research (ibid., p.267), there are no significant differences about human affairs of department head and subsidiaries’ president between two kinds of organizations.

We think top management affairs is not delegated into subsidiaries and such human affairs management is the main control for pure holdings company.

7. Conclusions

Japanese companies are often said that they have done the decentralization but looking at most of large industrial company, head-quarter often intervened into oversea subsidiaries’ decision making. This means head-quarter truly keep the significant power under his own domain. That is “Strong head-quarter”.

However, as the oversea business had been developed, organizational scale-up has done and the degree of business diversifications has also been developed. It means the adopting decentralized organizations and the necessity of practical decentralization become more necessary. Making approach into practical problem solving, the main problems are the existing of the wall between business units, or holdings and subsidiaries. Thus, to preparer the windows between each unit or to make some holes between such walls is necessary for holdings to monitor the operations of subsidiary, and to rearrange organizational structure and to set up the system for purchasing various resources and move some resources to be surplus in some places into necessary places or units. We try to explain how to open the windows between subsidiaries or business units, and how to strengthen head-quarter’s centripetal force by means of “Case Study”.

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