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Comparative Study on Capitalism in Japan and America

-- Formation of Business Group

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Abstract

Japanese model was viewed as an exemplary capitalism model of successful long-term economic growth. However, after 1990s, Japanese “bubble economy” burst and Japan turned into the phase of economy winter. Under the new international conditions, the Anglo-American model seems more suitable for globalization and liberalized market, whereas the Japanese model was becoming more problematic and the feature which made Japanese model of capitalism had a glary history before 1990s seemed no longer suitable for the new international environment.

The aim of this paper is to discuss the formation process of business group in America and Japan and then from the feature of each country’s business group to see the factors which determine its feature. By discussing the historical analysis on the process of being business group in America and Japan, it can be clearly pointed out that no matter what is the role of market or state in the process of the business group formation, the determinant is not only those two. Institution and policy instruments are also the determents and influence with type of capitalism role each country is heading.

Key word: business group, Japanese model, American model, institution, capitalism

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1. Introduction

1.1. Background

Before 1990s, Japanese model was viewed as an exemplary capitalism model of successful economic long-term growth; therefore this model was regarded as not only the research object but also a reference object followed by scholars around the world.¹

However, after 1990s, Japanese “bubble economy” burst and Japan turned into the phase of economy winter. Under the new international conditions, the Anglo-American model seems more suitable for globalization and liberalized market, whereas the Japanese model was becoming more problematic and the feature which made Japanese model of capitalism had a glary history before 1990s seemed no longer suitable for the new international environment.

There are many debates about the reform of Japanese corporation governance. Some of them indicated that Japanese model of capitalism would finally transfer into Anglo-American model and the global capitalism would be Anglo-Saxon capitalism and others argued that Japanese model could pick up its confidence through fundamentally altering Japanese way of doing business but not following the trail of American way.

1.2. Problem Discussion

After suffered economic depression and economy crisis, both Japan and the United State entered into the “adjusting phase”. When we talk about capitalism type, the research on business group is important to distinguish different types.

¹ Nouriel Roubini, “Japan’s economic crisis”, Stern School of Business, New York University, Tokyo, November 12th, 1996

As Japan encountering the international economy liberalized in 1908s and the “bubble economy” in 1990s, the feature of Japanese coordinated institution was changing. Especially along with a large number of foreign capitals swarming into Japanese market because of liberalized international economy and “bubble economy”, shareholding structure was changed and “corporatism” which was the pattern of the growth of Japanese capitalism was changed as well. Cross-shareholding structure was loosening continually and series financing and business within business group were decreased as well. Therefore, Japan realized that keiretsu could not accord with the new industry model. However the decreasing of “corporatism” did not lead to the deconstruction of keiretsu, but turned into Group of enterprises.

Somehow, some scholars argue that the phenomenon which is the internationalization process of Japanese companies is the sign that Japanese model is turning to American model or following American way because there is the trend of that. And from some similar elements in both Japan and America, people give the possibility of Japan turning to American model.

Society structure

The group of middle class became the society stratum foundation for both two countries.

Democratic system

The occupation phase started after Second World War. During the occupation period, American government rebuilt the democratic system in Japan and made Japan becoming a democratic country. Consequently party politics emerged; new parties appeared and even came into power in short period. Therefore, Japan built their democratic political system and party politics system; additionally liberal market principle should be accepted basically.

Tendency of Enterprises Group

The companies of both two countries realized that a single corporation could not survive in the globalization condition and is not competitive enough to compete in the international market. From the aspect of the corporate governance, companies adopted the similar governance methods and they showed the similar idea which refers to the trend of business group, although they followed the different road to implement business group.

Therefore, plus some Japanese companies are having the reform on corporate governance and central bank system and so forth. It could be interesting to research on the future of Japanese capitalism through the niche study on the historical analysis of business group in both American and Japan. Following research questions would be answered after doing the research by analyzing the formation of business group in both America and Japan: what and why make that process have such distinguishing differences? Could Japan change its model of capitalism in the future? What is the determinant factor of adopting different model?

1.3. Contribution

The aim of this paper is to discuss the formation process of business group in America and Japan and then from the feature of each country's business group to see the factors which determine its feature. From the formation of business group, the road of American and Japanese model can be discussed since the way of being capitalism is the road of capital accumulation process. Therefore, not only market and government decide how the business group was shaped, but other determinants also lead the way to different models. By discussing the historical analysis on the process of being business group in America and Japan, it can be clearly pointed out that no matter what is the role of market or state in the process of the business group formation, the

determinant is not only those two. Institution and policy instruments are also the determinants and influence with type of capitalism role each country is heading. Therefore, the method or the alternatives which I will represent in this paper can give more inspires to the further research on avoiding or solving economy crisis in capitalism world.

2. Methodology

2.1. Comparative Research Methods

Comparative research method has been chose to analyze and give the conclusion about Japanese capitalism. According to historical institutional school, what is called “institution” is own, historical and cultural production; consequentially, each countries’ institution cannot become essential same. Therefore, if doing the research without comparing Japan with other countries, that will not adequately explain the own institution and policy phenomenon of one country. If the institution of country “A” leads to “A1” policy, in order to give the right explanation for that, the institution of country “A” should be compared with the institution of country “B” and then can prove the explanation of that. Otherwise, if the researcher can not understand why the institution of country “A” is better than other countries, the assumption of country “A” has better institution does not have any consequences logically. From the perspective of famous scholar Sartori, what is called “comparative analysis” is that utilize assumptions which have logical consequences and bring those assumptions into real cases systematically.² From that perspective, comparative research method is suitable for the research about proving Japanese capitalism can not turn into the way of American capitalism. Through comparing historical reasons, ideology reasons and political reasons, this research can give strong evidences to support that assumption.

2.2. Necessity of Historical Analysis on Business Group

To understand the essence of one country’s business group phenomenon, only needs assimilating advantages of those two approaches and comparing the formation process

² Giovanni Sartori, “Concept Misformation in Comparative Politics” in *The American Political Science Review*, vol.LXIV, 1970(4), p.1035

of business group also becomes necessary condition of gaining new all-around understandings and conclusions.

Studying on the business group phenomenon in each country is to compare and analyze business group practices and understand its meanings; in other words, it needs to compare the history of business group in each country. However, this phenomenon is a global phenomenon and it is impossible to research and discuss business group's history all over the world. For that reason, comparing Japan with the United State is an easiest approach since Japan and the United State is representative of different types of capitalism and the business group in those two countries has distinct differences and characteristics. For example in Japan there is "Keiretsu" while in the U.S. "Conglomerate" or "Financial Group".

3. Theoretical Framework

This paper mainly compares the way of Japanese capitalism with American capitalism based on market orientation theory and state orientation theory since those two theories have opposite ideology backgrounds. Consequently, exploring those two perspectives is good for understanding the different comprehension on business group phenomenon; additionally, using culture orientation theory can explore some deep implications of why Japanese capitalism will not turn into American capitalism. From this viewpoint, I consider that although there were not so many harvests about researching business group phenomenon directly among the work of culture orientation theory, evaluating Japanese capitalism from culture perspective latter can explore the root of why Japanese capitalism is different from western capitalism.

3.1. Concept Definition

Business Group

Business Group firstly emerged from Japan after the Second World War. After Japanese zaibatsu dismissed by American government during the occupation phase, corporations which belonged to zaibatsu were reset into different organization unions in order to accommodate the trend of industry adjusting policy. The original intention of business group was organization unions called syndication.³

Generally, different schools give different definitions of business group. In a broad sense, business group is a kind of corporation union which requires self-determination right as the precondition among members and becomes a sustaining and stable management and cooperation combo in the principle of equality and mutual benefit. The corporation union could refer to the combo of different areas or different

³ Qiu Jingji, Chen Jiagui, "Business Group", Economic Management Press, 1991, pp.4-6

departments among several corporations; it also refers to proprietorship area in terms of capital and stock sharing. The former combo is loose and the latter one is tightness.⁴ The narrow sense of business group is based on capital relationship. This definition mainly comes from Japan and there are two forms within this category. One is the narrow concept of business group. Business group refers to the capital union among big corporations with group leading system. The features of this business group are as followings: stock is circularly held by corporations; the directorate is based on that system; member corporations make investment as one unit; metropolitan banks become the core of business groups; integrated commerce turns into the coverall industry system.⁵ The other definition in a narrow sense is the broad concept of business group. It refers to a great number of corporations retain their independency and stocks are held by each other; the whole group is the union for coordinating business activities in terms of creating a tight relationship of financing, personnel dispatch, providing raw and processed materials, products selling, research and development and so forth.⁶

There is no common definition of business group since the way of becoming business group is different from countries to countries. Therefore, it is hard to give any clear definition of the formation of business group. The formation of business group is a dynamic process and business group is one concrete concept. In terms of the form of corporation union, what is called “business group” is mainly referring to the steady colony which is a commerce unit with independent juridical person status, and the commerce unit makes one joining through human resource controlling, property right distribution, commerce collaboration and so on. In terms of the process of corporation integration, the formation of business group refers to the process of single corporations or organizations turning out to be business group, and also include the integration process of different corporation through non property right joining. In

⁴ Li Yining, “Business Group and Monopolized Competition”, Guangming newspaper, 18th Oct. 1986

⁵ 奥村宏, “Japanese Six Business Groups”, Zuanshi Press, 1976, Reference in Li Hongkui’s doctoral dissertation, 2005, p.12

⁶ 宫崎义一, “Japanese Business Group”, Japanese Economic News Press, 1976, Reference in Li Hongkui’s

other words, business group is true of the modern meaning of “property right joining”; whereas the formation of business group concept is the process of becoming commerce union including single corporations expand to “non property right joining”⁷

In a broad sense, there are three perspectives on the formation of business group which are market orientation theory, state orientation theory and culture orientation theory.⁸ Market theory on becoming business group point implicated that the phenomenon of becoming business group was a spontaneous process and the result of enterprise expansion. From state-led perspective, scholars attached importance to the effective efforts of state or governments during the formation of business group. They claimed that business groups are not evolved from market mechanism but fostered by state or governments. The school of culture theory pointed out that the pattern of business organization in each country has strong connection with its culture tradition. What they called “culture” is the ideology generated from thoughts of people in the society and then has the influence on organization activities including the activities of business groups.⁹

3.2. Anglo-American Capitalism vs. Rhine Capitalism

Anglo-Saxons model emphasizes on the function of stock markets, in other words under this model managers of enterprises are concerned about the interests of the “stockholders”. Whereas Rhine model emphasizes more on proprietor rather than stock markets, which means the manager is concerned about the interests of “stakeholders”. The point is that the behavior mode of corporations is influenced by the aim of the operator. Whose interests are the operator concerned decides the function and the goal of the company; therefore managers adopt the suited

Doctoral dissertation, 2005, p.12

⁷ Yin Wenuan & Zang Yueru, “Chinese Business Group Pattern”, China Planning Press, 1999 year book, pp.49-50

⁸ This conclusion came from Gary G. Hamilton & Nicole Woolsey Biggart’s theories. Gary G. Hamilton & Nicole Woolsey Biggart, “Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East” in *American Journal of Sociology*, vol.94 (Supplement), 1988

⁹ Linda Smircich, “Concept of Culture and Organizational Analysis” in *Administrative Science Quarterly*, vol.28, 1983, pp.339-358

administration setting according to their objects to achieve the goal which is the short-term profits, the long-term profits, or the persistent growth of the company.

The goal of Anglo-Saxon type is the principle of profit maximization. In America, the management activities can be supervised and controlled through the capital market in particular the stock market; whereas the bank and other financial institutions have less influence on the intendance of business activities. Therefore the advantages of this type are as following: the management activities could follow the will of the owner; the inner staff could not hold down the behavior of the operator thus the decision-making is efficient. However operators pay more attention to stockholders' interest rather than the interest of staff, which consequently goes against mobilizing employees' positivity and the conflict between managers and worker union is unavoidable. Additionally, under the pressure of emphasizing short-term benefit in stock market, operators sometimes lay particular stress on pursuing short-term profit. This thought restricts the management behavior of operators on considering investment in a long-term perspective. By contraries the aim of Japan's type is the maximization of corporation growth rate; in other words, the reward and condition are mainly determined by saleroom and the growth of the corporation, not only by the profit of the corporation.

3.3. Market-led Theory vs. State-led Theory

From historical institutional perspective, the reason why there are different types of capitalism can be explained based on the following theories.

3.3.1. Market orientation theory

The major part of the explanation of becoming business group belongs to market orientation school. Although there were diverse perspectives about the main reason of being business group, the mainstream viewpoint is that business group is the

spontaneous evolution process of enterprise integration.¹⁰ Besides, as the enterprise becoming the mode of resources allocation, this mode was generated spontaneously from market mechanism to replace the market which used to be the node of resource allocation.

Ronald. H. Coase who is the founder of this theory considers that there are two sides of economic resources allocation which is through the price namely the market mechanism on the one side, and through the organization namely the enterprise on the other side.¹¹ The reason of setting up the business organization is that utilizing the price mechanism has cost.¹² For example, different kinds of charges take place during using price mechanism such as the contract fee, distribution expenses and so forth. In order to economize the cost, a long-term contract form which is business organization was chose to avoid each cost of short-term contract form which is market; ultimately market was substituted by business organization. According to his theory, the purpose of enterprise expansion, in other words enterprise collectivizes, is a cost saving process.¹³ Enterprise also needs doing business with other enterprises. The business between different enterprises could be carried out either through external market or implemented within the organization. Considering the cost, the establishment of business group could be regarded as the internal process of doing business within different enterprises. The main reason is to economize the market bargaining cost and public administration charge. Videlicet, if establishing a business group could economize bargaining charge and gain more profits than single enterprise, single enterprise spontaneously will outspread to enterprise group.¹⁴

The bargaining cost is associated with scale economy and scope economy.¹⁵ Thanks

¹⁰ Han Dongxun, "The research on Chinese business group and controlling company", Doctoral Dissertation, Beijing University, 1997, pp.1-7

¹¹ Ronald Coase, "The Firm, the Market and the Law", Chinese Edition, Shanghai Sanlianc Press, 1990, pp.3-5, reference in Li Honhkui's doctoral dissertation, 2005

¹² Ronald Coase, 1937, "The Nature of the Firm" in *Putterman*, Louis & Randall S. Kroszner eds' *The economic nature of the firm*, Cambridge University Press, 1996, p93

¹³ Ibid p98

¹⁴ Akira Goto "business groups in a market economy" in *European economic review* Vol.19, 1982, pp. 60-63

¹⁵ Alfred D Chandler, Jr, "Scale and Scope: The Dynamics of Industrial Capitalism", (1990) Chinese Edition, The

to scale economy and scope economy, the bargaining cost was reduced. Therefore, market-orientation school considers that, business group is the production of that kind of economy since it is the kind of format which is the combination of horizontal-management, vertical-management and “multiplex-management”¹⁶. In the side of scale economy, acquisition could enlarge business size in order to reach a scale economy not only on production, distribution and research development, but also through the capabilities of capital distribution, the purchasing of raw and processed materials and so forth. From the side of scope economy, through incorporation, utilizing technology, manage capability, production facilities, distribution networks and so on, companies could achieve more effective result than single company does in the case of producing diversified product lines.¹⁷

Oliver E. Williamson who represented “multi-business” theory developed Coase’s bargaining cost theory into the organization failure theory; accordingly, explained the “multi-business” model. According to organization failure theory, the middle manager sending or receiving the wrong information that effect the communication within the organization lead the operators to misunderstand information. In other words, organization failure is the in-between format between the price mechanism (market-orientation) and organization. Oliver considered that as an American “multi-business” model, project department model replaced single-line department model, since single-line department model could not achieve the strategic aim of diversified production if the organization failure appears.¹⁸ Besides, the more managers opportunism actions are carried out, the more cost occurs, which leads to lower efficiency and low profits. In order to solve that vertical and horizontal integration and to extend the organization relationship,¹⁹ Leff pointed out that in the

Chinese Academy of Social Sciences Press, 1999pp.14-20

¹⁶ Alfred D. Jr. Chandler, “Scale and Scope: The Dynamics of Industrial Capitalism”, 1990, Chinese Edition, The Chinese Academy of Social Sciences Press, 1999, pp.14-20

¹⁷ Han Dongxun, “The Research on Chinese Business Group and Controlling Company”, Doctoral Dissertation, Beijing University, 1997, pp.4-5

¹⁸ Oliver W. Williamson, “The Modern Corporation: Origin, Evolution, Attributes” in *Journal of Economic Literature*, vol. 19, 1981 (Dec), pp. 1554-1565.

¹⁹ Oliver E. Williamson, *The Economic Institution of Capitalism*, Free Press, 1985, pp.68-162

case of market failure, the existing of business group could accord with enterpriser's spirit; in respect that incomplete market situation requires different inter-market operators, which means enterprisers could allocate resources and solve market bugs through business group.²⁰

From Leff's perspective, besides motivate enterpriser's spirit, business group has more advantages than other business formats that are utilizing capital efficiently than single corporations and utilizing human resources together.²¹ The former one could be associated with Williamson's internal money market theory. In other words, by way of "multi-business" model, business group could form an internal money market through participating finance industry or circulation industry; therefore, business groups could bring into play the function of allocated and adjusting resources. The other way around, as none "multi-business" model, single companies only rely on external money market; furthermore, the investment mount and efficiency could not compare to business groups.²²

Market orientation perspective considered that another reason of business group existence is dispersing risk. In other words, after establishing the business group, the business could be both developed within the industry and extended to other industries; consequently, the risk is separated. From market-orientation perspective, business group is true of the force of practical benefits. Under the international allocation institution, which is brought by the globalized market economy, only the competitive and powerful companies have the qualification of attaching themselves to international allocation effectively. The construction of business group could be treated as establishing a united armada leaded by the aircraft carrier. It sequentially gets hold of an advantageous position and benefits every member sharing in the result

²⁰ Nathaniel H. Leff, "Industrial Organization and Entrepreneurship in the Developing Countries: The Economic Group" in *Economic Development and Cultural Change*, July 1978, pp.669-671.

²¹ Ibid pp. 671-673.

²² Oliver E. Williamson, "The Modern Corporation: Origin, Evolution, Attributes" in *Journal of Economic Literature*, vol. 19, 1981 (Dec), pp. 1554-1565.

of international allocation. That is another reason of buildup business group.²³

In conclusion, scholars belonging to the market-orientation school consider that the process of buildup business groups follows the economic logic and could save bargaining costs, achieve the aim of scale and scope economy, overcome market failure and organization failure, allocate resource effectively, spread around market risks, participate in international allocation actively and so forth. They affirm that the existence of business group is a spontaneous process, which acclimatize the pressure of market competition and market extended.

3.3.2. State orientation theory

According to the perspective of state orientation theory, each country in the world, especially in developing countries, corporate collectivize is fostered by government aiming at accelerating economy growth. In other words, the government adopted different means of inducting, intervening and even cultivating business groups for the reason that only depending on market adjustment is far away of efficient and enhancing economic benefit can not be apart from national/government intervention.²⁴ Therefore, this perspective was brought out with developmental state theory. In “developmental state”, states supervise, foster and father the market; the state is autonomy but because state and enterprise are symbiosis which make enterprise subordinate to the state and cooperate with the state.²⁵ Accordingly, the government of developmental state plays the role of entrepreneur who helps and leads a number of top enterprises to expand their business. For the sake of developing “strategic national industry”, this kind of governments support and foster business groups which have the competitive advantage of “size economy”. Namely, policies adopted by

²³ Shen Liren & Ye Kelin, “New Exploring on Building Business Group”, Jiangsu People’s publishing house, 1999, p7

²⁴ James A. Caporaso & David P. Levine, “Theories of Political Economy”, Cambridge University Press, 1992, pp.181-196

²⁵ C. Johnson, “MITI and the Japanese miracle: The growth of industrial policy 1925-1975”, Stanford university press, 1982. Wade R., “Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization”, Princeton: Princeton university press, 1990

developmental state play an important role in begetting the formation of business group.²⁶

From the perspective of state orientation theory, East Asian miracle has proved that state supervising and controlling market (including brought out business groups) accelerated economy growth with high speed. Some scholars put forward that the state pattern of forwardly fostering business group growth has appeared before the Second World War in Japan. From the analysis of Morikawa, Japanese business groups, namely zaibatsu, have got several priorities and favorable rights provided by feudatories for the reason that zaibatsu paid tenancy to central government instead. That is the secret of zaibatsu growth.²⁷ Comings pointed out that the imperialism country of Japan regarded Zaibatsu as the means of national capital accumulation and offered favorable finance policy from Meiji reform to the end of Second World War. On his point of view, Zaibatsu, which is together with central bank and bureaucracy, is the core backbone of Japanese imperialism.²⁸ The major scholar of developmental state theory C. Johnson considers that although the power of government control in postwar phase has been reduced and changed in some degree comparing with prewar phase, the power of government on enterprise did not change. In respect that Japanese government could bring into play dominant effect depending on powerful bureaucracy by industry policy and managing several corporations. On his perspective, the emergence of Japanese business group in postwar phase is actually approbated and fostered by Japanese government.²⁹

3.3.3. Understanding of theories

For the analysis of emergence and growth of business group, both market orientation theory and state orientation theory have great contribution; moreover each of them

²⁶ Ziya Onis, "The Logic of Developmental State" in *Comparative Politics*, vol.24, no.1 (October), p116

²⁷ Hidemas Morikawa, "Zaibatsu: The Rise and Fall of Family Enterprise Groups in Japan", University of Tokyo Press, 1992

²⁸ Bruce Cuimings, "The Origins and Development of Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences" in *International Organization*, vol.381, 1984, pp.8-16

²⁹ T. A. Bisson, "Zaibatsu Dissolution in Japan", University of California Press, 1945

provided core factors related to business group. For instance, market orientation school gives a clear explanation of the relationship between market and enterprises. On that sense, market is the stage and space for corporations conducting commerce activities; enterprises expanded for economic motivation, consequently becoming business group is spontaneous and rational enterprise activity. Besides, market orientation school emphasizes that enterprises generate and develop from market system. Business group in other words is the form of enterprise system. In a word, market orientation theory explains the essential element of becoming business group. Firstly, the formation of business group phenomenon is the inner motivation within enterprises. Secondly, as the pattern of enterprise system, business group is in the market system net; therefore, the formation process of business group has consanguineous relation with the change of market system.

Differently, state orientation theory explains the outer reason of being business group, namely the factor of government's industry policy. Industry policy means a series of policy on developing or restricting different industries that in order to achieve a global competitive advantage.³⁰ Therefore, different countries in different phases have different industry policies. Nevertheless in the country, industry policy factors (such as enterprise policy) actually have a great influence on the development of enterprises. Originally, market economy allocates resources mainly depending on price system. However, preconditions of allocate resources efficiently hardly can be fulfilled in real world such as full competition, information completeness and symmetry and so forth; because market failure and market growth in developing countries exist and become resistances. As a matter of fact, government intervention on commercial activities (especially the industry policy) has appeared for a long time and not started from Japan and other countries which industrialization took place quite late. For example, although the United States is the country which hardly conducts industry policy, industry policy has been carried out in different phases in American history.

³⁰ C. Johnson, "MITI and Japanese miracle: The growth of industrial policy. 1925-1975", Stanford University Press, 1982

At the same time, both theories have disadvantages. In the first instance, market orientation theory cannot explain how business group types differ from country to country. Although market spread and market competition led to the innovation that business organization turned into business group, each country's business group was not shaped under the rational condition of market domination logic.³¹ People in market orientation school attach importance to economic benefit; consequently they regard the emergence and development of business organization as rational result of purchasing benefit. Videlicet, the bigger the uncertain possibility, the higher the bargaining cost and the more the opportunism exist, the less the benefit and the lower the efficiency is. Therefore, market orientation theory consider that the setting up of business organization is for the purpose of enhancing economic benefit and finally lead to the business group mechanism. However, even though market orientation theory is propitious to explain the response of business organization to market and the development of business organization, this theory ignores other general environment factors which influence business organizations such as state, international environment, ideology and so forth. Historical experience proved that state and government have something to do with the emergence of one business organization and business organization firstly appeared within the national boundary; besides, along with the growth of capitalism, market economy is beyond areas and national boundaries and the development of business organizations gradually have close connection with international political and economic environment.

Secondly, state orientation theory, namely "developmental state", is not enough to explain the reason that the formation of business group pattern occurred worldwide in the same period. Although scholars holding state orientation theory can explain why state and government work on the process of becoming business group by analyzing the process in East Asian countries, they did not give the explanation of being

³¹ Gary G. Hamilton and Nicole Woolsey Biggart, "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East" in *American Journal of Sociology*, vol.94 (supplement), 1988,

business group in the scale of the whole country and the effort of political factors. In other words, from their perspective, emergence of being business group in East Asian countries is an exceptional phenomenon that politics and political factors are the determinant of bringing out the formation of business group. Standing on their angle, they consider that in developed countries, market is the determinant of business group whereas in their counterpart, state policy or politics is the main drive of this phenomenon. At the same time, the precondition of state orientation theory is regarding government as the representative of “overall benefit” and can make reasonable industry policy. However, that perspective is not correct because industry policy actually determined by a small number of “governing elites” and their sense is limited and sometimes would be influenced by different interest groups. Additionally, government and its governing elites have their own interest as well and have a great chance to make industry policy obey their interests.

On all accounts, neither market approach nor state approach can explain business group phenomenon perfectly. Both approaches just clarify one factor or relative situations of the emergence of business group phenomenon. Therefore, to evaluate Japanese capitalism pattern not only needs assimilating advantages of those two approaches, but also needs the approach of comparing Japanese capitalism with American capitalism and the process of becoming business group. The following analysis firstly will review the history of business group in both America and Japan. Then the history will clearly show the factors which influenced the formation of different types of business group in those two countries. Therefore, the analysis of this paper will be presented by exploring culture, social factors, legal system, party system, the role of government, and finally policies. By analyzing those factors, a conclusion could be reached: what is the most effective determinant if neither market nor government is the factor that leads to different business group?

4. Empirical Research

4.1. Formation Process of Business Group in America

During 1860, most of American industries were dispersive, small-scale and low-skilled industries. Types of those industries were not stockholder relationship corporations, but partnership or self-owned companies.³² Contrarily, after the War Between the States, some enterprises which have great market power appeared gradually. Therefore, American economy entered an era which was full of mass-produce system industries.³³ The American enterprises transformed into bigger and multi-unit corporations by establishing distribution institutions and corporate incorporating. Along with the incorporating between companies, then the “Trust” model, which was created by Standard Oil Company, emerged afterwards.³⁴ The character of “Trust” model is that there is one person who is called trustee holding the stock of the whole company. Trustee took the responsibility of making decisions for pursuing the collective profits. Then after 1980s, holding company institution took place of “Trust” institution and became the coordinator of associated companies; incorporative companies started on the strategy of being centralized and collectivized.³⁵ This change came from the change of capital market and legal system.³⁶ Afterwards, the anti-trust law was adopted by the condition that public considered the national industries were monopolized by big enterprises which did not accord with liberal competition and liberal economy.³⁷ However the anti-trust law did not make a clear statement about acquisition and acquisition was still admitted. The

³² Jeremy Atack & Peter Passell, “A new economic view of American history: from colonial times to 1940”, (1994), Norton. Chinese Second Edition, Luo Tao, The Chinese Academy of Social Sciences Press, 2000, pp.456-459

³³ Alfred D Chandler, Jr, “The Visible Hand: The Managerial Revolution in America”, (1977), Chinese Edition, Chong Wu, Shangwu Yinshua Press, year book, 1994

³⁴ <http://usa.dongyu.net.cn/Economic/groups/10.htm>

³⁵ Alfred D Chandler, Jr, *ibid*, p.385

³⁶ Glenn Porter, “The Rise of Big Business, 1860-1920 (American History Series)”, Chinese Edition, pp.133-136 & pp.138-143

³⁷ *Ibid*, pp.158-161

process of corporate incorporation accelerated the growth of holding companies, and consequently the stock market was growing up and becoming more effective. Therefore during one decade after that, a stupendous acquisition wave took place in the United States.³⁸ Along with industries centralizing process, capital of banks was centralized as well. At the end of 19th century, there were three life insurance companies and two commercial banks with powerful strength on financial capital showed up in New York. Each of them controlled several commercial banks and insurance companies per se and then turned into powerful financial monopoly organization and amalgamated with industrial capital. That is the birth process of monopoly financial group.

During the First World War, the status of America's economy had a changeover in the world economy system, namely America was becoming the leader of world economy for the reason that European economy had to rely on America.³⁹ In 1917, some companies turned from longitudinal integration to transverse integration gradually that the longitudinal integration on production and distribution had basically completed. The reason for that was large numbers of demands catalyzed by the war, and longitudinal integration was propitious to the certain situation of rapid production and circulation. Under these advantaged conditions, acquisition was characteristic by vertical way of integration in terms of transportation, marketing and raw and processed materials providing and extend those activities overseas. Later, a group of powerful financial groups came out.

However, Great Depression in 1930s broken the trust chain of big enterprises and those enterprises were put in the first place of being attacked by public. In that situation, a series of measures were brought out which led to decentralization of proprietorship structure.⁴⁰ Afterwards, new finance law was carried out in order to

³⁸ Ibid, pp.143-144

³⁹ Jeremy Atack & Peter Passell, *ibid*, pp.543-557

⁴⁰ Yu Xiao, "Comparative Study on the Structure of Corporate Governance in America and Japan", The Chinese Academy of Social Sciences Press, 2003, p.113

supervise financial market. New finance law cause securities business rationalization to accelerate the extension and development of securities business. Therefore after Great Depression, American new financial institution accomplished which figure the feature of financing mode and corporate proprietorship structure. Subsequently, American companies make financing mainly by issuing bond and stock from capital market directly.

Nevertheless during the Second World War, the supports of big companies regained public attention. During 1960s, thanks to the development of securities business, acquisition was characterized by mixed amalgamation, namely crossed-industry, acquisition between different industries, emergence of company complexes and giant multi-companies. According to that phenomenon, financial groups grew bigger and bigger and capital was centralized more and more into financial groups. Consequently, the monopoly power of financial group augmented rapidly day by day along with each financial group's economic strength increasing and latter controlled every aspect of America' politic, economy and society.⁴¹ Nevertheless, from the end of 1960s, American economy was not competitive any more. In addition, the competition among each financial group increased; accordingly public supports to big financial groups were decreased. Since 1970s thanks to the economic foundation fluctuating and the technology changing with each passing day, competition between each financial groups pricked up; consequently, each financial group turned their business into diversification and then grew to be all-around financial groups. Along with the development of business diversification, industries controlled by financial group were diversiform and each of them had different advantages and disadvantages so much as conflict to one another that led financial groups to loose their control on each subsidiary company since various interests made it difficult to command by few delegates. Therefore, the connection and structure of financial groups became loose gradually. Dissimilarly during 1970 to 1980, giant conglomerates needed adjustments, because single juridical people with various institutions were not good for setting an

efficient management system. The result of adjustment was that the proportion of mixed acquisition decreased and latter acquisition turned into relevant industries.

4.2. Background of Business Group in Japan

The core of Japanese business group is the center bank system. During the First World War and the Second World War, Japan's economy was dominated by zaibatsu which originally came from the political economy policy supported by Japanese government. In order to be economically independent, Japanese government provided many favorable policies to these magnates whom occupied key or national industries in Japan.⁴² After the war between China and Korea, which provided the pre-condition of industrial revolution for Japan, Japanese capitalism went to more aggressive road and then generated militaristic capitalism. Under the militaristic capitalism, zaibatsu gained more profits and government subsidy through developing military industry and chemistry industry, which provided enough capital for those zaibatsu investing in other industries and expanding company size.⁴³ Therefore, zaibatsu became the foundation of Japanese militarism capitalism. Afterwards, the lost of Second World War consequently destroyed Japanese militarism capitalism which also indicated the disaggregation of its economic foundation--zaibatsu.

Especially during the occupied period, American government adopted relative laws to deconstruct zaibatsu; because American government considered that feudalistic zaibatsu was the economic foundation of Japan starting aggressive war. Although the pyramidal family control was destructed, the strength of big zaibatsu companies was preserved completely. Actually from 1948, American government turned to the policy that eased up the deconstructing of zaibatsu. Especially there was no measure about dismissing or removing the bank which belonged to zaibatsu. Therefore, the power of those banks was saved entirely. Thanks to that political attitude, that provided a

⁴¹ <http://usa.dongyu.net.cn/Economic/groups/10.htm>

⁴² Jin Ronglai (金荣来), "The Study on Japanese Zaibatsu and Business Group", International Economy and Trading Institution, 2000, pp.25-32

⁴³ <http://www.cass.cn/webnew/file>

potential financial guarantee for enterprises integrating in transverse way basing on the central bank system in the postwar phase. The reason for American government turning to that political attitude which did not deconstruct Japanese zaibatsu was to solve the economic crisis after the war. During 1950 to 1953, Japan took many orders about military products from America because of Korean War. During that period, the power of zaibatsu recovered because Korean War urged American government turning to stop deconstructing zaibatsu swiftly and fostering the revival of Japanese monopoly capital.

In 1951, American government signed treaty, which means the occupation period finish. Afterwards, Japanese monopoly capital took advantage of that occasion to accelerate business group recombining. Between the middle of 1950 and the beginning of 1970, Japan reached its high speed economic growth; Japanese capital groups--Keiretsu--accumulated huge economic strength and came into being the Japanese model in terms of the finance oligarch system—center bank system. Because high speed economic growth needed capital support and a large numbers of loan provided by banks was required. Therefore, exceedingly relying on banks decreased the ratio of active capital. By way of “series financing”, banks and corporations built up together again during 1950s. After 1960, business group became the leading actor in Japanese economy. Under the trend of paying attention on chemistry industry, the power of business group increased since most of big chemistry companies belonged to business groups.⁴⁴ During that phase, the liberalization of capital occurred in Japan due to the pressure of American government. Under the tendency of liberalism, a climax by the characteristic of incorporation among big companies took place. The incorporation accelerated the establishment of Japanese corporate institution—business group. Hereinto, more than half of that incorporation fell into the incorporation among same enterprise series.⁴⁵ In point of fact, the climax of

⁴⁴ Wang Jian, “The formation and development of Japanese Business Group”, The Chinese Academy of Social Sciences Press, 2001, pp.111-112

⁴⁵ Se Wen, “The Development and Countermeasure of Modern Japanese Economy”, Peking University Press, 1990, p.95

incorporation was for international market share and becoming competitive; moreover all of those aims were supported by Japanese industrial policy namely “trade orientation policy” and “heavy industry strategy”.⁴⁶ In other words, intensive international competition and Japanese industrial policy is the key reason of accelerating the wave of incorporation and consequently setting up “six business groups” institution.

Entering 1980s, world economy accelerated the liberalization of foreign exchange trade process and the pattern of world market changed significantly. In order to accommodate to this change, the second wave of incorporation happened. Although the number of this incorporation was few, the capital content was quite high that led to Japanese business group consolidate its institution. However by the end of 1980s, “bubble economy” crisis took place in Japan and inflicted heavy losses on Japanese economy especially on Japanese business group in terms of the decreasing of shareholding proportion, the weakening of series financing relationship (main banks power decreasing), the declining of bargaining ratio and the contract system among big corporation changing.⁴⁷ Hereinto the decreasing of shareholding proportion led to shake the groundwork of business group. Along with the loose of shareholding ratio, a great number of stocks swarmed into stock market and those stocks were purchased by western investors which led to the increasing of foreign stockholder proportion. The interposition of foreign capital was altering the stockholding structure of Japanese companies and the development track of Japanese business group as well.

⁴⁶ Liu Yi, “The Study on the Transform of Japanese Joint Stock Company”, Liaoning University Press, 2002, p.93

⁴⁷ Wang Jian, “The formation and development of Japanese Business Group”, The Chinese Academy of Social Sciences Press, 2001, pp.194-202

5. Comparison and Analysis

5.1. Comparison

5.1.1. Type of American business group—conglomerates

In the United States, the concept of business group is not popular. Usually, big financial companies are regarded as business monopoly groups.⁴⁸ Business monopoly group is essentially financial group which is big banks and bulk enterprises controlled by a few financial oligarchs. Typically, financial monopoly groups are composed of one or several families depending on corporate acquisition to expand business scale. Moreover, a core enterprise of financial group controls the whole financial group by financing capital (holding a big mount of stocks), providing a loan and dispatching people as directors. “Control” means that banks possess of the right for making corporate policies in terms of the mission and vision of the company, business strategies, financial policy, and margin distribution. Secondary corporate policies (in terms of pricing, marketing, labor policy and so on) are made by managers and operators. This implicates that corporations’ connection of financial group is actually a little bit loose. Each financial monopoly group controls many famous companies by financial companies. Whereas, the boundary of each financial group is fuzzy because there is the infiltration phenomenon among different financial groups and enterprises which belong to one financial group have cross-stockholder phenomenon. Some of those famous companies’ stock is held by several financial groups.

In addition, conglomerates belong to the category of financial group in a broad sense.

⁴⁹“Conglomerates” is the juridical person who expands bund companies depending on

⁴⁸ Wang Jian, *Ibid*, p.48

⁴⁹ Lisa A. Keister, “Chinese Business group: The Structure and Impact of Interfirm Relations during Economic Development”, Oxford University Press, 2000, pp.30-31

the way of acquisition or purchasing stocks. The business area of conglomerates does not restrict in same or related production and business activities, but is the associated production and management in crossed-department or crossed-industry. In the United States which has the most developed financial market, the pattern of conglomerates is the major pattern of doing business in crossed-industry. Therefore, many American companies become conglomerates with the feature of longitudinal integration by influencing or taking charge of numbers of subsidiary companies, relevant companies and collaborated companies. The inner coupling of conglomerates is mainly on property right, capital and personnel. The subsidiary companies always have good capital yield and operation stability. Consequently, those subsidiary companies are named after parent companies. From that angle, some big companies under the stock control of conglomerates hold or control the stock of many relevant companies and enterprises per se. However, the corporate structure of subsidiary companies can be changed easily since stock purchasing can be transacted through financial market and parent companies have no personnel intercommunion with subsidiary companies. Therefore, some scholars point out that financial group is different from business group.⁵⁰

5.1.2. The Institutional Character of American Conglomerates

According to American economy history, the characters of Conglomerates could be summarized as followings. Firstly, the independence capital is on the core position of American corporations. Monopolization financial groups usually base on one large-scale bank as its main support. Secondly, the internal connection of the corporation is not tight. Because the financing foundation is the most developed and the most open financial market and large fluid capital, loose ownership structure of American business groups come into being. Thirdly, American government set up regulations to limit corporation expanding. Although American government adopted

⁵⁰ Gerald F. Davis, Kristin A. Diekmann & Catherine H. Tinsley, "The Decline and Fall of the Conglomerate Firm in the 1980s: The Deinstitutionalization of an Organizational Form" in *American Sociological Review*, vol.59,

anti-monopoly law to control the degree of company expansion, American society is against government trespassing on property. Therefore, conglomerates can be approached by sharing stocks, controlling stocks, acquisition and so forth.

According to those characters, American conglomerates are the result of market expansion that purchasing organizational efficiency; then because of the pressure of “fair play” movement, conglomerates become groups with loose structure. As a matter of fact, the emergence of business groups is a threat to the ideology of individualism and liberalism. American liberalism has the tendency to individualism which can be seen from the trust and protection laws of property and human rights. Additionally, this tendency rooted in “American Dream” which came from the experience and outstanding characters of War of Independence.⁵¹ Therefore, American people regard conglomerates as the resistance of fulfilling their “American Dream”. At the same time, they deem that government prohibit acquisition and even punish companies are also incorrect. According to classical liberalism, the existing of government is to protect individual rights and maintain order; but the scale of power should be limited strictly otherwise it will beyond its purview. Inspired by classical liberalism theory, people are against either centralization of state power or limitless government. Therefore, the notion of distinguishing politic and economy is formed. Based on that thought, American society considers that liberal market economic activities represent liberal country; additionally, activities of purchasing self benefits are good for the whole society

In accordance with that perspective, the type of American business group, namely conglomerates, is the result of the development of liberal capitalism. Therefore, this political and economic institution has its relevant features. In other words, American business group is the compromise of two opposite market theories which are liberal competition and efficiency. American people believe that company expansion and

1994, pp.547-570

⁵¹ Scott Bowman, “The Modern Corporation and American Political Thought: Law, Power, and Ideology”, The

government regulations of limiting company expansion would threaten the root of American political and economic institution which is the institution of property and the political thought of liberalism.⁵² Thereby, the process of being business group centred by acquisition can not be implemented without the foundation of the developed capital market.

In conclusion, market seems to be the main force of American business group. Government plays the role of a coordinator between enterprises and public. The emerging of conglomerates is the result of liberal capitalism.

5.2.1. Type of Japanese business group—Keiretsu

The core of Japanese business group is six metropolitan banks which are Mitsubishi, Mitsui, Sumitomo, Mizuho, Fuyo and Sanwa. These six business groups were organized from previous zaibatsu. Some of them follow the previous zaibatsu system such as Mitsubishi, Mitsui and Sumitomo; some of them come from previous middle size or small size zaibatsu organized by metropolitan banks such as Mizuho, Fuyo and Sanwa. The features of those six business group are as followings: (1) cross-shareholdings companies in ring pattern; (2) the corporation is led by proprietor group and members are connected with the corporation by property right bond; (3) representative represent the corporation and implement centralization of investment; (4) the core of business group is metropolitan banks and the proprietor of the bank usually become the real power person; (5) integrative business become the hinge of business groups; (6) business diversification that management range covers agriculture, industry and service industry.⁵³

However in a board sense, excepting six business groups, Japan has independent corporation groups which are operating big industry capital and relevant companies.

Pennsylvania State University Press, University Park, Pennsylvania, 1996

⁵² Glenn Porter, "The Rise of Big Business, 1860-1920 (American History Series)", Chinese Edition, p.178

⁵³ 奥村宏, *ibid*, pp.17-23; Akira Goto, "Business Groups in a Market Economy", *European Economic Review*, Vol. 19, 1982, pp.54-58

Those independent corporation groups take big enterprises as parent companies and provided with numerous subsidiary company or relevant companies' business groups such as Sony, Toyota, Toshiba, and Panasonic and so on.⁵⁴ Independent corporation groups have following features: (1) cross-shareholdings member in radial pattern; (2) group is led by directorate and dispatch managers and director to subsidiary companies; (3) some core companies supervise, prop up subsidiary companies and send managers to subsidiary companies; (4) the core of business group is industry companies which is either managing companies or holding companies; (5) some of those big corporations have their financial institution such as Toyota and Panasonic; (6) carry on business diversification policy but focus on one major industry. In other words, the relationship of independent corporation group's parent companies, subsidiary companies and relevant companies is administrated-and-subordinated. But from the examples, among independent corporation groups, many of those companies are the member of six business group. Sony, Toshiba and Toyota belong to Mitsui business group; Panasonic belongs to Sumitomo business group. Most of the famous companies belong to six business group. Generally, independent corporation group is called corporation series for the reason that they usually have their own corporations.⁵⁵

However, what is called "Keiretsu" is the total title of Japanese business group, namely including independent corporation group and six business group.⁵⁶ Whereas, there is another definition of Japanese business that six business group can be regarded as corporation series because the core industry of six business groups is finance series centered by banks.⁵⁷

⁵⁴ Miyasaki Giichi, "Japanese Business Group", Japanese Edition, Japanese Economic News Press, 1976, p.248;

Akira Goto, "Business Groups in a Market Economy", *European Economic Review*, Vol. 19, 1982, pp.58-60

⁵⁵ "Modern Japanese Dictionary", The Chinese Academy of Social Sciences Press, 1983

⁵⁶ Michael L. Gerlach, "Business Alliances and the Strategy of the Japanese Firm" in *California Management Review*, no.30, 1987, pp.126-142

⁵⁷ Aoki Masahiko. "Toward an Economic Model of the Japanese Firm" in *Journal of Economic Literature*, no.28, 1990, pp.1-27

5.2.2. The Character of Japanese Keiretsu

According to the history of Japanese business group, the character of Japanese Keiretsu is as followings. Firstly, financial capital is the core of Japanese business groups. Financial institution includes banks which not only provide a loan to corporations but also send managers to corporations and give advices and suggestions to operators. Secondly, the internal connection of corporation is tight. No matter the contract relation is transverse uniting or lengthways uniting, Japanese business group has series structure that the ownership structure is centered by parent companies or financial institutions. Although there are rivals between each series company, series companies receive supports from parent company on financing, selling, technology and so on.⁵⁸ Thirdly, the government support is important to set up business group. Although the pervious zaibatsu deconstructed by American government is the important force of the economic foundation of Japanese militarism capitalism, Japanese government brought keiretsu back by taking advantage of being as American military base which made great efforts on being a developed country and supporting keiretsu expansion afterwards.

Those features implicate that Japanese keiretsu fundamentally come from the process of purchasing organizational efficiency in terms of the corporation of government and companies. According to the formation of Japanese business group, the one major determinant is the alternative pattern of deconstructing zaibatsu which is a revolution carried by American government constrainedly and also is the institution transplant of American pattern. In other words, the deconstructing zaibatsu policy provides institutional condition to setting up Japanese keiretsu and the deconstruction of zaibatsu cut the pyramid family control which provides the historical institutional condition. However, although American occupation government design a detailed democracy reform plan, due to the opposite opinion of Japanese interest groups and

⁵⁸ James R. Lincoln *et la*, "Keiretsu Networks and Corporate Performance in Japan" in *American Sociological review*, no.61, 1996, pp.67-68; Michael L. Gerlach, *ibid*; Masahiko Aoki, *ibid*.

the turnover of American policy, Japanese business group do not become a republication of American business group institution following American will but go along their own way and become the business group pattern characterized by cross-shareholding system, long time and stabile business relationship between corporations and maintaining many other features as same as pervious corporate institution.⁵⁹ In other words, Japanese keiretsu is the combination of American transplant institution and Japanese character.

In the same way, by 1980s, Japanese keiretsu pattern has strong connection with the institution feature of Japanese capitalism namely “communityism” and “cooperatism”.⁶⁰ During 1950s to 1970s, the formation and development of Japanese keiretsu depended on industrial policy to a great extent. Japanese industrial policy shows that government gives great efforts, in terms of pricing, tax, government subsidy, low interests loans and so on, to departments which can bring benefits to the country in order to enhance international competitive strength. Here those industrial policies should be paid more attention because industrial policies are the core means of Japanese coordinative management between government and the people which means “deliberative congress”. Congresses are composed of retired government officers, financial people, people in journalism and scholars. The main mission is exchanging information and standpoint and then come into accordant opinions. All of the industrial policies have to be considered by the congress.⁶¹ In this congress, representations of big corporations occupy a large proportion and the president of the congress is usually engaged by financial people. Therefore, drafts concerning industrial policies are generated from the discussion between government and industry groups.⁶²

⁵⁹ Zhou Honglan, “The Road Analysis of the Transformation of Japanese Business Group”, The Chinese Academy of Social Sciences, master thesis, 2003

⁶⁰ Macro Orru *et la*, “Patterns of Inter-Firm Control in Japanese Business” in *Organization Studies*, vol.10, no.4, 1989, pp.549-574; Michael Gerlach, “Alliance Capitalism: The Social Organization of Japanese Business”, University of California Press, 1992

⁶¹ Jiang Xiaojuan, “The Industry Policy during Economic Reform Phase”, Shanghai People’s Publishing House, Year Edition, 1996, pp.43-44

⁶² Wang Xinsheng, “Political System and Economy Modernization: Rethink of ‘Japanese Model’”, The Chinese Academy of Social Sciences Press, 2002, pp.72-73

In conclusion, Japanese Keiretsu is the result of state capitalism.

5.3. Analysis of differences

After summary the history of the formation of business group in both America and Japan, there are several different factors which lead those two countries following different way.

5.3.1. Difference of Culture and Society

Some scholars deem that Japanese governance has distinguished features. All of that Japanese enterprise culture in terms of lifetime employment system, bottom-up decision making and seniority system rooted in Japanese “WA” culture which means coordinating culture. Consequently, the cooperating system among Japanese corporations and even Japanese business group phenomenon belong to “WA” culture. Moreover, scholars point out that culture orientation approach has great effect on the emergence of “family business”, some of which developed into “Zaibatsu”. Scholars explain that managers will be loyal to corporations because of family remembers and they will be respected by other managers and even the whole society.⁶³

America and Japan have different culture background. Confucianism is the basic ideology of Japanese society, whereas American society has been influenced by liberalism which emphasized the value of individuals and Christianity is the basic ideology of American society. Because of different culture background, national behavior and social principles are different. In Japan, although apparently Japan is following capitalistic culture, Confucianism is still the fundamental ideology of Japanese society because national education and national foundation is based on traditional Japanese culture plus the uncertainty of capitalistic culture. Capitalism is just the shell of this society; the real ideology is Confucianism and Japanese Shinto

spirit. This ideology is inclined to collectivism and this behavior influences the whole society. Therefore, the collectivism behavior leads Japan to a stable national system and a steady country modality no matter facing economic crisis or rapid economy growth. Japanese society is regarded as a homogeneous society and the collective interest is put into the first place.⁶⁴ The social behavior of Japan is regarded as collectivism. The connection of both in-company and out-company is hard to be destroyed. The country's anti-capitalist economic institutions could be materialized in cross-shareholdings system. Many shareholders are corporate buddies facing the same dilemmas. In terms of out-company connection, the relationship between the government, banks and enterprises could be described as a close partner and a dominator.

However in America, the ideology is multiplex and liberal culture. Moreover among the conflict of multiplex culture and liberal culture, American social behavior is an extroverted culture whereas Japan is an introverted culture. America attends to purchase its global interest comparing with Japan which can see from the formation of business group. For example, corporate culture is different in or between companies. Japanese companies emphasize the relationship between companies, government and banks. A successful corporation tends to focus on long-term goals whereas American's pay attention to the short-term profits and they consider the relationship between companies is only competition. Therefore, because of different culture background, national behaviors are different that an introverted social behavior generates from traditional culture and an extroverted behavior is caused by multiplex culture.

5.3.2. Legal System

Liberalism politics generated liberal capitalism and free market in America. Japanese capitalism is anti-capitalist capitalism. The state-led market and the state dominate

⁶³ Murray Sayle, "Japan Victorious" in *New York Review of Books*, vol.33, no.5, 1985, pp.35-36

enterprises as well.

From the history I mentioned in part four, we can see the formation of American business group has the tattoo of liberalism. America is a typical capitalism country with liberal market economy. Moreover, America is an immigrant country with many nations and different religions. Additionally, federal legal system allows each state has its own laws. Therefore, American people consider that each people can do the thing following his will and individuals can adopt appropriate way to decide his property; they do not need to follow others' order or will. Although people take personal freedom, people can not use this freedom to infract and destroy others.⁶⁵ This liberalism ideology leads to American legal system, namely liberal political system which is against huge power.

From that perspective, the development process of American conglomerates has close connection with American liberal political system. In the early phase, American people had strong confidence in American companies since they believed America provided the guarantee freedom of fulfilling hopes. Consequently, establishing a company was respected by public and activities of government intervention went against liberal system. This attitude persisted till the form of Trust.⁶⁶ However, the appearance of giant trust companies was the threat of American liberal system because they led to the centralization of economic power and destroyed the principle of liberal competition. Accordingly, the relation between American government and American companies is that government generally does not intervene in economic activities and commercial activities of companies directly but influence the economic environment indirectly to conduct and affect business activities of companies, namely state adjusting market and then market affecting enterprises. During the development of American economy although the government started intervening in business lives

⁶⁴ Yoshio Sugimoto, "An Introduction to Japanese Society", Second Edition, Cambridge University Press, pp.2-6

⁶⁵ Ying Kefu et al, "Western Democracy History", The Chinese Academy of Social Sciences Press, 1997, pp.129-131

⁶⁶ Geroge A.Steiner & John F.Steiner, "Business, Government and Society: A Managerial Perspective" Chinese Edition, Huaxia Press, (2002) p.86

largely from 1930s, all the means of interventions and adjustments were in the purpose of restraining and blocking of monopoly which can destroyed liberal competition. Therefore, American business group basically came from the process of purchasing organizational efficiency as market expansion. And because of the pressure of public though which believed liberal competition, American government established anti-monopoly law in order to stop companies blind expansion and even went against business group seemingly. Nevertheless, American society is against government infringing property as well. Therefore, American business group turned into conglomerates which have loose connection structure and high proportion of capital liquidity.

The relationship between Japanese government and Japanese companies belongs to East Asian model which is state leads market and state also controls enterprises.⁶⁷ Under this model, the government plays the role of indicator and leader by making market plan and the government controls enterprises by deciding industrial policy. In Japan, keiretsu is the business group which is a kind of ownership centered by banks and parent companies. Japanese government leads enterprises to right tracks which accord with requirements of the policy, but the major way of leading is “government and public coordinated”. Therefore although enterprises do not agree with policies, the influence of the policy is not huge. In other words, in Japanese development strategy and its industrial policy, government and companies have an efficient coordinated relationship. Moreover, shareholder companies of Japanese banks are nongovernmental companies and banks; especially among huge banks, shareholder companies are its core series companies. Consequently, Japanese government supervises on financing methods and so on, and Japanese banks are the interest representative to coordinate with government because the relation of banks and corporations sets up on cross-shareholding ownership system. In conclusion, the relationship of government-bank and government-company is basically coordinate relation, but the relation of bank-company is the cross-shareholding ownership

relation. Thus corporations expand its business under the range of government policy support and generate keiretsu pattern spontaneously during the formation process of business group.

Therefore, Japanese legal system belongs to East Asian model which is centralism. Whereas American legal system is pure “separation of powers” because America was set up from a fresh country and America did not experience feudalization. Consequently, America legal system is not centralization of state power but decentralization. From the country modality side, Japan is unitary country but America is federal country. They have totally dissimilar legal system; as a result they have different legal validity and diverse institutional influences on society. Different states in America can make their own policies and laws but Japan cannot. Therefore, those differences prove that the power of government intervention of Japan is stronger than American on important economic issues, because Japan is centralism country.

5.3.3. Party system

Then it comes to the internal activity which is Japanese party system. Party system was introduced by America during the occupation period. Moreover democratic institution was learned from 1945. Because of liberal social activities and open legal system, America party system also against huge power accordingly against one party in the saddle. However, different from American legal system, the power of centralism makes Japan could not support American party system. It is well known that the advantage of separation of powers is to avoid parties making its own interest. But under the centralism legal system, it is easily formed that only one person or one party has the national power. Consequently, Japanese democratic institution is different American. Because democratic institution was not generated from Japanese own system which led Japan to an oriental democratic model, this democratic institution is not real suitable for Japanese political institution and even has conflict

⁶⁷ Ibid, pp.145-152

with it. Therefore, the solution is carrying out a fake party system but actually only one party reign. This party system is suitable for centralism system and makes this system developing steadily, although it seems odd from American perspective.

Party system obeying legal system is on the one side; on the other side party's interest is an important indicator. Because only one party has power in Japan, in order to maintain its authority, this party has to find more constituencies. Consequently, the party in Japan plays booty with business group in order to find it powerful supporters. Moreover because of Confucianism, there is a principle—loyalty is important to Japanese. Therefore Japanese keiretsu can only support one party. Oppositely in America, business group give support to several parties in order to maintain its power and American culture is liberal which makes that possible. Consequently, social ideology decides that party system in Japan is close, whereas in its counterparty America is correspondingly open. In other words, Japanese party system is not generated from American style democracy but oriental centralization model. As a result, Japanese democratic institution is not the one as American; it is an idiographic institution with a shell of American style and the core of oriental legal system. Therefore, the normal pattern of Japanese party system is that one party has the national power for long time and it is seldom in the situation of several parties reign together. Additionally, always one party in the saddle for long time can result in interest-oriented. In order to hold its power, the ministerial party would legalize all the activities which can support its power. In other words, Japanese party system indicates that there are different interest groups and each of them is supported by business groups. Because party's interest is based on the interest of business group, ministerial party will make a series of policies which favor business groups.

5.3.4. Role of Government

Because culture backgrounds, social behaviors, legal systems and party systems are different, the role and influence of government are different. From the formation

process of business group in both America and Japan, it is obviously proved that activities of Japanese government are intervention, whereas American is support.

In Japan the legal system is centralization. The party system is “hegemonic one-party system” which means there is one interest-orientated ministerial party and this party controls the whole country. Therefore activities of government are intervention and government is a dominator. The relationship between Japanese government and business can be described as bureaucratic-industrial complex.⁶⁸ In Japan, the centralism will not change. Japanese government will not liberate financial market. Finance interventions still become the most effective means to control industries.

In America, the political system is separation of powers; social behavior is liberal; and the party system is “multi-party system” and political parties can not become interest-orientated. Therefore government should not get involved in business activities.

Since the Civil War, big corporations which have great market power appeared gradually and mass-produce economic institution took place in America.⁶⁹ During 1870s, nationwide confraternity was set up to control price and producing for the reason to solve the crisis of mass producing and economy depression.⁷⁰ However this “cartel” did not have legal contract sanction and the intention that demand a low price in order to gain individual profits appeared frequently within cartel companies.⁷¹ Besides, cartel has no decision making authority to administration of individual company and the member of cartel just meet regularly for pricing and distribution of producing quota.⁷² The other solution was “Trust”. Under this mechanism, trustee held the stock of many companies and made decision for the collectivity. Along with

⁶⁸ Chalmers Johnson, “MITI and the Japanese Miracle”, Stanford University Press, 1982, pp.20-22

⁶⁹ Alfred D Chandler, Jr, “The Visible Hand: The Managerial Revolution in America” (1977), Chinese Edition, Shangwu Yinshua Press, 1997

⁷⁰ Ibid, p.367

⁷¹ Glenn Poter, “The Rise of Big Business, 1860-1920 (American History Series)”, pp.111-112

⁷² Alfred D Chandler, Jr, *ibid*, pp.369-370

the increasing number of trust and incorporated companies, the motivation of acquisition was changing. Incorporated companies carried out the centralizing and integrating strategy indeed.⁷³ This change is concerning with the change of legal system and capital market.⁷⁴ Hereinto, the most important one was the establishment of “anti-trust law” and the explanation of this law by the court. The purpose of this law was to abandon trust activities which blocked liberal competition and avoid the expansion of big companies in order to bring the liberal competition institution centered at middle or small size companies.

According to that, effects of government on the process of being business group are not strong enough. Before Great Depression, the policy was liberal competition and liberalism ideology; market had effect on adjusting the operation of capitalism economy. Then America encountered Great Depression and economic crisis, American president Franklin D. Roosevelt brought government intervention to solve the crisis. In conclusion, the role of government in America is a coordinator.

5.3.5. Different Policy

According to the analysis above, the key factor is the role of the state. Because each government has different attitude to business activities, automatically the economic policies made by government are different. Economic policy includes many aspects, but the important factor is the way or the purpose of economic policy, which indicate why Japanese model is different from American model. Based on the analysis above, the drive of Japanese making economic policy is supporting one power and cut the throat of competition. Government sets up business group and supports it in order to avoid inside competition and become competitive in international competition because of collectivism and centralization. Especially during the process of becoming business group, the orientation of Japanese policy did not encourage competition between each business group. Whereas in American, free market and liberal political

⁷³ Alfred D Chandler, Jr, *ibid*, p.385

system decide that the role of government should not be involved into business activities. Therefore, its economic policy squints towards “fair play”. And then the thing behind economic policy is law. Therefore, America supports fair play and liberal competition; Japan encourages individual power especially economy power.

“In common usage, the word capitalism means an Economic system in which all or most of the Means of production are privately owned and operated, and the Investment of capital and the Production, distribution and prices of commodities (goods and services) are determined mainly in a Free market, rather than by the State. In capitalism, the means of production are generally operated for Profit.”⁷⁵

Based on that definition of capitalism, capitalism should be built in the condition of free market. Therefore, from the formation process of business group in America, policies instruments are aimed at market activities. All the policies American government made did not go against the principle of free market. However in Japan from the formation of business group we can see that policies instruments help government to cultivate or control the market. In conclusion, due to different policy orientation, Japanese model is different from American model. The one is state-controlled capitalism, the other is liberal capitalism.

⁷⁴ Glenn Poter, *ibid*, pp.133-136 & pp.138-143

⁷⁵ <http://pda.molinu.com/wiki/en/ca/Capitalism.htm>

6. Conclusions:

By analyzing the formation process of business group in both America and Japan, we can have following conclusions.

Firstly, the dynamical motivation of becoming business group is neither from state nor from market, but from the institution which is relevant to corporate relations. Due to the difference of each institution, the formation process of being business group in each country is unquestionably different. In the same way by doing the research on the business group of each country, the difference can indicate different institution. The result of American business group is American conglomerates which indicate American capitalism institution; whereas the result of Japanese business group is Japanese keiretsu which indicate Japanese capitalism institution. By comparing the formation of business group, we know that American capitalism institution is different from Japanese; by analyzing the difference of business group types, we know that with business group coming out, the tendency of capitalism way will be different as well. Therefore, that will be clear from the analysis in chapter five that what makes the formation of business group different in those two countries. Institution is an important factor to decide which way a country should go. However, the development of one country does not follow the institution straightly; to some degree it deflects from the way of what the institution should be. The most important thing is policy which is generated from institution, social culture and legal environment. In other words, it is the policy orientation. For example, the policy orientation of Japan in occupation phase followed American orientation. Then Japan did not develop rapidly. Then because of Korean War, American government loosed control on Japanese politics; therefore, the Japanese institution returned back to state-orientation politics and became growing dynamically. That is the Japanese model. As a result, the choice of being as Japanese model is determined by culture, social behavior and institution; however all of those determinant factors will transform into policies in order to

support the development of the whole country.

Secondly, in some distance, policies decide institution. Because institution itself has inertia nature, which means an institution can not be changed for certain phase as long as it was set. Whereas policies is more flexible; policy can be adopted and stop in a short period. Thus institution is the root and essential foundation. Therefore, although many debates discussed which model is better and whether Japan should change its model into American model, they are not really meaningful. And from the analysis above, Japan will find the way which is suitable for its culture, social behavior and institution. According to marketing orientation and state orientation theory, the formation of business group aims for reducing cost and avoiding market failure. Therefore, in the country like America, free market model can encourage small-and-middle-sized companies to absorb disengaged labor force and accordingly realize economic growth. However this free market model can not make those companies become market leaders or monopolies. Those companies share the market and resources, but they can occupy the whole industry. However, Japan does not have a market as big as American and Japan does not have many choices for negotiating with other powerful companies. Therefore, Japanese government fostered major industry and powerful companies in order to be competitive. From this point of view, policy instruments play an important role. In the case of Japan, authority-based and treasure-based policy instruments were chosen as the orientation in the formation of business group.

Finally, the analysis above verified that Japanese institution could not be changed. And the analysis also proved that national institution decides the way of development and therefore the model of being what kind of capitalism. Additionally in this paper, I also demonstrated that not only institution decides the capitalism model, but other factors also decide the model especially the efforts of policy instruments.

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