Comments on Jackson and Miyajima

Hideshi Itoh

Graduate School of Commerce and Management, Hitotsubashi University

main messages

- considerable changes of CG going on in Japan.
- changes uneven across different elements of CG, and fall short of “convergence” on Anglo-American CG.
- changes different across different groups of firms, leading to greater heterogeneity.
  → J-type hybrid, J-firm, A-type hybrid

immediate questions

- J-type hybrid, J-firm, A-type hybrid: internally coherent systems?
- does low performance imply local (not global) maxima, uncoordinated change, or coordinated but too small change?
- are changes in the right direction?
- less institutional isomorphism temporary or not?

need theoretical analysis to evaluate changes.

notes on complementarities

- Milgrom and Roberts
- complementarities (and non-concavity) make changes difficult.
  1. no change in just one dimension, no matter however large, can improve performance.
  2. no simultaneous but small change in multiple dimensions can improve performance.
- local experimentation is not enough
  → centralized and coordinated search and change is a must.
- changes of a “tightly coupled” system like Japanese CG are even more difficult.

what is corporate governance?

Jackson-Miyajima take a broader view of CG, as involving

1. multiple stakeholders, as well as
2. institutionalized rules and beliefs that shape their role in corporate decision making.

Tirole (2001): “design of institutions that induce or force management to internalize the welfare of stakeholders”

multiple stakeholders?

- obvious for the overall efficiency in the first-best world.
- more substantial question: how costly is it to implement the values of various stakeholders, in more realistic second-best world (with incentive and information problems)?
- should CG induce management (who is to be governed) to pursue shareholder value or stakeholder values?

what do Jackson-Miyajima say on this important issue?

management is to be governed

- a trend in the U.S. corporate governance: a significant role of the board on corporate decision making.
- in particular, on selection, monitoring, retention/dismissal of the CEO.

today we have not heard much about the main players to be governed, top managers.

learning from the U.S. experiences

- 1980s: merger wave, use of leverage and hostile takeover.
- why did markets become more active?
  - excess capacity explanation: returning the “free cash flow” to investors.
  - disappointment with conglomerates: return to specialization.
  - rise of institutional shareholders: shift of power balance

learning from the U.S. experiences

- 1990s: hostile takeovers and LBO largely disappeared. Why?
  → firms adopted shareholder-friendly policies.
  - incentive-based compensation: equity-based, stock option
  - capital-conscious programs
  - significant role of the board on corporate decision making: selection, monitoring, and retention/dismissal of the CEO.

new (economic) theories

1. interaction of formal governance and relational governance:
   - relational governance must be self-enforcing. [reneging temptation] < [future loss]
   - formal governance may affect reneging temptation and/or future loss.

new (economic) theories

2. self-disciplined governance
   - corporate culture of "for the good of the public" (Niihara)
   - non-economic behavioral motives of managers and employees

back to shareholder value vs. stakeholders

- costs of the shareholder value approach:
  biased decision
- costs of the stakeholders approach:
  - measurement problem (accounting, market)
  - possibility of deadlock under shared control

back to shareholder value vs. stakeholders

- more realistic route: the shareholder value approach, with protection of noncontrolling stakeholders
  - detailed contracting
  - exit
  - flat claim

back to shareholder value vs. stakeholders

- commitment to LTE may serve as a protection of employees
- need self-enforcing conditions and/or behavioral motives

combination of the formal governance targeting shareholder value and LTE supported by relational or self-disciplied governance may be internally coherent.