

METI-RIETI Symposium

“Corporate Governance Reform in Japan: Lessons
from the United Kingdom”

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Trust Firms and Japanese Companies

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Most Japanese Companies Are Trust Firms

- Only shareholders who make long-term commitments to the business of the company can exercise voice.
- Japanese companies eliminate risk of hostile takeover by cross shareholding.
- “Maximizing shareholder value” is not a norm.
 - Instead, the rule of “maximizing company value” enables management to balance stakeholders’ interests.
 - Keeping employment is more valuable than paying dividends.
- Japanese firms are reluctant to take risk.

Criticism of Japanese Companies

- Low ROA and ROE
- Too risk averse
- Company communities tend to pursue their own private benefit at the cost of shareholders.
- Shareholders' monitoring is weak.

Tradeoff between Internal Governance and External Governance (Acharya, et al., 2011; Shishido & Eguchi, forthcoming)

- Internal governance is the engine.
 - The structure of incentives that work within the company's internal organization
 - The bottom-up pressure that makes the top manager a value-builder for future generations
 - Typical Japanese companies have a greater capacity for internal governance than companies in the US and the UK.
- External governance is the gas and brake.
 - External governance by outside equity is supposed to complement internal governance and improve the efficiency of value buildup, as long as it is not excessive.
 - External governance has been incomplete in Japan because of the practice of cross-shareholding.
 - The growth bias inherent in internal governance caused wasteful investments after the Japanese economic bubble.

The Future of Japanese Corporate Governance: Seeking for A Good Balance

- Take advantage of the strong capacity of internal governance
- Institutional investors as catalysts
 - Japanese Stewardship Code aims not only at maximization of ultimate beneficiaries' interest but also at supporting sustainable growth of portfolio companies.
- Activists as vacuum-fillers
 - Activists encourage management dialogue with institutional investors for obtaining their support.
- Bargaining board instead of monitoring board
 - Comply-or-explain rule will make most listed companies have at least one independent director.
 - Insider-outsider parity board is optimal for incentive bargain between human capital providers and monetary capital providers.