Corporate Governance and Managerial Reform in Japan. Edited by D. Hugh Whittaker and Simon Deakin. Oxford University Press, Oxford, 2009. ix, 320 pages. £55.00.

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Hugh Whittaker and Simon Deakin begin this volume by saying that the chapters collected here address the state of Japanese corporate governance and managerial practice at a critical moment (a short time prior to the global financial crisis of 2008). Topics discussed in the chapters include the consequences of Japan's corporate governance reforms that began in the 1990s. Though some aspects of the reforms, including changes in the relevant laws (such as the new company law incorporating the revised commercial code) and institutional settings, are still under way and some firms are still trying to figure out how to take advantage of the new corporate governance rules, the fruit (or the lack thereof) of Japan's corporate governance reform is clearly emerging. This book helps the reader to see what has been realized.

The focus on managerial issues as they relate to Japan's ongoing corporate governance reform is timely and useful. Among post–World War II Japanese firms, employment practices and industrial organization based on *keiretsu* have been characterized by their long-term nature. These management practices were and still are consistent with Japan's postwar bank-based corporate governance practices. But they are not fully consistent with the interests of independent investors who seek maximum returns in external capital markets. This inconsistency was thought to be the primary cause of the poor performance of the Japanese economy in the postbubble recession in the 1990s. Serious effort was made by the government, businesses, and the public to move to a more market-oriented and robust U.S.-style corporate governance system. Such a shift requires not just legal and institutional corporate governance reforms but also associated changes in management practices. This is particularly important for Japan where the majority of managers and workers still support long-term employment contracts and, even though bank-based *keiretsu* groups have become less important in general (except for the Mitsubishi group), the use of vertical *keiretsu* suppliers continues. Discussions presented in the chapters of this book help further our understanding of why corporate governance reform might not lead to Japan's full acceptance of a U.S.-style shareholder-value-maximization principle and management practices that are fully consistent with that principle. This might also be interpreted as evidence against the so-called convergence hypothesis that predicts that Anglo-American corporate governance systems will eventually be universally accepted.

Two main practices are considered in various chapters of the book. The first is how Japanese corporations reacted to the new flexibility in Japan's company law allowing them to adopt, or not, new U.S.-style practices such as the use of more outside directors and a corporate board structure based on an executive committee (chapters 2, 4, 7, 9). The second is how corporations reacted to the new legal and institutional environment designed to facilitate mergers and acquisitions (M&A), especially including hostile takeovers (chapters 2, 3, 5) and associated management issues related to corporate governance reform (chapters 6, 8, 9). Much of the discussion in these chapters is based on fieldwork in large Japanese corporations and on interviews with investors, civil servants, and policymakers. Corporate governance mechanisms, long-term employment and supplier relationships, and management practices including cooperation within *keiretsu* tend to be closely intertwined in Japan. Thus, it is useful to consider how Japanese management practices responded to Japan's corporate governance reform.

The book contains ten chapters, including an introduction and conclusion by the editors (chapters 1 and 10). Chapters 2 and 3 focus on the uncertainties and ambiguities surrounding the key legal reforms of the first decade of the twenty-first century. Chapters 4 through 9 are devoted to trying to understand why the effects of the reforms have not been more clear cut. Contextual factors in the wider corporate governance environment are a central focus of this discussion (p. 15). Chapter 2 by John Buchanan and Simon Deakin, "In the Shadow of Corporate Governance Reform: Change and Continuity in Managerial Practice at Listed Companies in Japan," is based on interview data the authors collected. They note that the direct effects of Japan's reform laws have been less far-reaching than proponents of the reform had hoped. Nevertheless, the indirect influence on listed companies has been substantial. They conclude that Japan's post–World War II stakeholder-based (that is, what the authors refer to as "community firm" based) corporate governance practices have thus far survived. In particular, the authors stress, "So far, the community firm and its governance system have successfully survived extensive structural changes, more through adaptation than confrontation" (p. 63). They argue that Japan's community firm survived by adapting to the new movement demanding shareholder rights.

Chapter 3 by Masaru Hayakawa and D. Hugh Whittaker, "Takeovers and Corporate Governance: Three Years of Tensions," discusses legal reform of takeover bids and presents a detailed background on this subject. The chapter points out the lack of a clear shareholder-value-maximization principle to guide Japanese managers in areas such as dealing with hostile takeover bids and placement of poison pills. Hayakawa and Whittaker nevertheless conclude that even though Japan has not adopted the shareholder-value-maximization principle, it is not likely to return to the prereform days of shareholder passivity.

Chapters 4–9 examine specific corporate governance circumstances where the goals of Japan's key legal reforms have not been fully realized. Chapter 4 by Sanford M. Jacoby, "Foreign Investors and Corporate Governance in Japan: The Case of CalPERS," discusses the frustrating experiences of the California Public Employees' Retirement System (CalPERS) in trying to revise the corporate governance practices of Japanese firms that CalPERS invested in to bring them into greater conformity with U.S. practices. As an activist institutional investor, CalPERS pressed companies it invested in for wider disclosure, restrictions on takeover defenses, independent boards, and greater acceptance of shareholder resolutions at annual general meetings. This activist institutional investor approach was pursued by CalPERS even though there was no empirical evidence demonstrating that the approach led to higher returns. For various reasons, the Japanese firms CalPERS invested in did not fully adopt the suggested new practices. CalPERS scaled back its activist approach beginning in 2002. Jacoby concludes that the recommendations by CalPERS were suboptimal in the Japanese corporate governance context. He notes that Japanese corporations have adopted only those changes that were a good fit with their existing incentives and institutions, which is to say, those that have an unambiguous relationship to performance (p. 122).

Chapter 5 by Ronald Dore, "Japan's Conversion to Investor Capitalism," focuses on detailed governmental and other aspects of the institutional setting for Japan's changing attitudes toward hostile takeovers and shareholder value maximization. Dore contrasts Japan's postwar community firm corporate governance practices with emerging shareholder-oriented practices. He concludes that "the conversion of Japan to the theology of shareholder sovereignty seems complete" (p. 167). This somewhat bold conclusion is at odds with Dore's views on the same subject in his own earlier writings.

Chapter 6 by Takeshi Inagaki, "Managers and Corporate Governance Reform in Japan: Restoring Self-Confidence or Shareholder Revolution?" discusses where shareholder value maximization is going and also the community firm concept. Noting that there have been no successful hostile takeovers of listed firms in Japan to date, Inagaki concludes by questioning Dore's argument that Japanese firms are quietly adopting shareholder value maximization.

Chapter 7 by George Olcott, "Whose Company Is It? Changing CEO Ideology in Japan," focuses on how the shareholder-value-maximization principle relates to the behavior of Japanese chief executive officers (CEOs) and other executives, their compensation, and corporate boards, among other topics. Olcott uses his own survey data from 2006 and 2007 based on interviews mostly with former and current executives. He sees the emergence of a greater role for CEOs and development of a less collegial approach to management. CEOs are being prompted to pay more attention to communication with shareholders and also are urged to be more sensitive to share price. He finds an increasing role for outside directors as advisors but not as shareholder representatives as they are in the United States. He sees little support for the notion that shareholders own the corporation. "While . . . from a theoretical perspective the company was owned by shareholders, there was virtual unanimity in the expression of the stakeholder perspective of corporate governance, with the core employees of the company still occupying a prominent position in the minds of CEOs in considering who their main audience is and for what purpose they work" (p. 218). He also notes that hostile M&A will for the time being remain anathema for Japanese firms (p. 218) and concludes that "communitarianism" as a firm's guiding principle has not been "delegitimized."

Chapter 8 by Takashi Araki, "Changes in Japan's Practice-Dependent Stakeholder Model and Employee-Centred Corporate Governance," examines recent changes in Japanese labor-related laws (which were highly protective of employment relationships) as they relate to corporate governance reforms, particularly with regard to a possible shift in Japan's corporate governance focus from stakeholder considerations to upholding shareholder value maximization. Araki concludes that changes in labor laws will have little impact on the core regular employees of Japanese firms (though the core portion of the workforce is shrinking). Also, according to Araki, these changes in the labor laws have not facilitated the shift of Japan's corporate governance system to a shareholder value maximization–based system.

Chapter 9 by Hisayoshi Fuwa, "Management Innovation at Toshiba: The Introduction of the Company with Committees System," presents case-study evidence on the implementation of new corporate governance practices at Toshiba, one of the largest high-technology manufacturers in Japan. Fuwa discusses Toshiba's implementation experiences in corporate governance practices as related to innovation behavior, adoption of the executive officer system, and adoption of the executive committee–based board system. He then focuses on the usefulness to Toshiba of the newly implemented concept of the separation between management and the board. Fuwa reports that Toshiba stresses that, for its corporate governance to be effective, its approach must be comprehensive and cover various issues including board structure, the board supervisory role, management systems and execution, internal controls, and attention to shareholders as well as to corporate social responsibilities. Moreover, corporate governance must penetrate the thinking of the entire company at all levels. Most interestingly, Fuwa also notes that though good corporate governance does not automatically translate into good performance, Toshiba feels it should and is trying to ensure that it does. (Among Toshiba's domestic competitors, Hitachi Ltd., Mitsubishi Electric, and Sony have also adopted U.S.-style board systems, but Panasonic has not.)

The editors' conclusion, "Corporate Governance, Institutions, and the Spirits of Capitalism," reviews chapters 2–9, paying particular attention to questions about the possible role that shareholder value maximization might have in Japanese corporate governance practices. They concur with most of the other contributors to this volume that Japanese executives pay more attention than before to shareholder value maximization, but there is no overwhelming support for shareholder value maximization as of now. They conclude (pp. 287–88), first, that ideological preferences partly explain the reluctance of Japanese executives to shift toward shareholder value maximization (that is, many executives are ideologically against giving priority to shareholders over other stakeholders). Second, they find that tensions between corporate governance and investor relations continue, with many demands on members of the community firm and with disadvantages for "nonmembers" (particularly women and also youth in recent years); this point calls into question the equity or fairness of the system. Finally, along these same lines, they conclude that the reforms might result in production efficiency (as Japanese see it) overriding equity within society as in the past. In general, they believe choice will not be as important as commitment in industry, and Adam Smith's markets remain a source of Japan's inspiration but still are not an indigenous concept.

How Japan copes with the introduction of U.S.-style corporate governance practices is an interesting research topic not just for Japan specialists but also for specialists on China and other East Asian countries where U.S.-style corporate governance practices are being introduced. A new theoretical framework for explaining the types of Japanese behavior observed for the current corporate governance reform is found, for example, in my latest article,[1] where I point out that the type of adaptive behavior we are observing for Japan's corporate governance reform as noted in some parts of the Whittaker and Deakin volume (for example, chapter 2, p. 63, and chapter 4, p. 125) is not unlike the types of Japanese selective adaptation behavior observed in certain other major changes involving Japan's institutions, laws, and society.

1. Masao Nakamura, "Adoption and Policy Implications of Japan's New Corporate Governance Practices after the Reform," *Asia Pacific Journal of Management,* Vol. 28, No. 1 (2011), pp. 187–213. Available also from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1641485##.