

Corporate Structure and Modernization:
A Comparative Analysis of
Japan and the United States

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In little more than 100 years, Japan has moved from an isolated agrarian society to one of the world's most advanced capitalist industrial societies. And of equal note, Japan is the first nation to achieve advanced industrial status from an Asian rather than a western cultural base.

From the very beginning of this process of industrialization, during Japan's Meiji period, many Japanese questioned Japan's ability, willingness, and even the desirability of "modernizing," especially if this meant accepting western values in the process. Among these people was Natsume Soseki, perhaps Japan's greatest novelist, who was among the first Japanese intellectuals sent to the west to study western ways. After two years of study in London (which included much reading in sociology and psychology), Soseki returned to Japan to question the wisdom of blind acceptance of western values, and in 1911 wrote an essay (*Gendai Nihon no Kaika*, translated "Development of Modern Japan") which included the famous line, "Western civilization is 'internally evolved' progress, whereas the movement of Japanese modernization is 'externally developed' culture" (Soseki 1965, vol 11:333; Iijima 1987:144). Similar criticism of imposing western values upon Japan can be found in some of his most famous novels, such as *Wagahai Wa Neko De Aru* (translated under the title of "I Am A Cat"), as well as the novels of many famous Japanese writers who followed Soseki.

(1)

Since this time Japan has cultivated the reputation of accepting western technology while retaining "unique" Japanese values, or at least bending these values somewhat without losing Japanese traditions (Smith 1983:26). The extent of Japanese

uniqueness can be questioned (Tominaga 1987), but many Japanese are so convinced, and even proud, of the Japanese "uniqueness" that there are hundreds of popular volumes written under the subject of *Nihonjinron* (Study of the Japanese), many containing what most people would call outlandish claims. However, many Japanese who accept (at least to some extent) this claim of uniqueness, criticize Japan's inefficient mix of modern technology and "outdated feudal social structure" (McCormack and Sugimoto 1988; van Wolferen 1989:431).

Western social scientists have sometimes contributed to this idea of Japanese "uniqueness" with works contrasting western and Japanese values (see especially, Benedict 1946). More often than not, however, western social science has assumed that while Japan today remains unique in some ways, the process of industrialization will stimulate modernization, eventually rendering Japan's society and culture more or less similar to those in the western industrial nations.

In recent years, this assumption has been brought into question. Some western social scientists, among them the "revisionists," have concluded that Japan is rather unique in many ways, and will remain so with even further industrialization (see van Wolferen 1989:16). Other social scientists, with more favorable views of Japan, have also revised their modernization assumptions with respect to Japan. For example, in the 1950s, Ronald Dore (see his most recent work, Dore 1987) first viewed Japan as "behind" though modernizing, then later as unique, and more recently as certainly not "behind" but rather the model for western industrial nations trying to "catch up" to Japan (Kawamura 1988:269). (2)

Since Soseki's time, it seems that the controversy over whether Japan should, can, and will modernize has neither subsided nor become less confused. In the present paper we will consider this question of Japanese "modernization" through examination of a most basic institution in modern capitalist societies, the corporation. We will consider the degree to which the Japanese corporation is similar to, and different from, corporate structure in the United States, and the direction in which change in Japanese corporate structure has been moving during Japan's history of industrialization. We will then conclude with what we think this means for the concept and

theories of modernization. We must begin, however, with a brief examination of the concept of modernization.

Modernization "Theory"

An examination of the (slowly) growing western social science literature on Japan since Benedict's (1946) famous work suggests that most of this literature contains assumptions about Japan's eventual "modernization" along western patterns. It is assumed, for example, that Japan's family system will slowly change to more resemble the western family system, political democracy will develop along western lines, as will sex roles, education, and other aspects of society and culture. However, when we examine these works more closely we do not find any clearly defined theory of modernization behind these assumptions. We references to the general ideas of Durkheim, Tonnies, Marx, and especially Parsons (McCormack and Sugimoto 1988:3), but seldom anything more specific than reference to Parsons idea of pattern variables. And in this respect, it is important to stress that these assumptions about Japan's modernization focus on culture and social organization, rather than the technical means of production. Marxian and other materialist oriented social scientists would, of course, be expected to assume aspects of "super structure" will follow change in the technical means of production, but even non-materialists seem to follow this line of argument in the case of Japan.

We noted above that Parsons' work is especially cited, or at least implied, in many of the works on modernization in Japan. In particular, Parsons' pattern variables are often used to describe how the value orientation of a society is supposed to evolve as it becomes more complex and technologically advanced. Five pattern variables, described as ideal-types, were originally suggested by Parsons (see Parsons and Shils 1951; Parsons 1951): affective neutrality/ affectivity, specificity/ diffuseness, universalism/ particularism, achievement/ ascription, and self/ collectivity. Following ideas related to those of Durkheim and Tonnies, the value orientations toward individuals in the society are to move from the right to the left in each of the value pairs as societies modernize. There has been general agreement that as western societies moved from feudal-agrarian

to industrial societies, this shift has taken place. For example, as societies industrialize, more people in the society (especially outside of the family and peer group) are expected to place less emotion in interactions with others, focus on specific aspects of the other which are related to the purpose of the interaction, judge people with objective, universalistic criteria, assess others with achievement rather ascriptive based qualities, and be motivated by individualistic goals rather than goals of the group or large organizations.

Before we take-up our critique of the assumed value shift that is said will occur in Japan as industrialization proceeds, we must now turn to our primary subject of change in the Japanese corporate structure. But we can conclude this section by noting that the following will show that rather than following a simple pattern of modernization, change in Japan's corporate structure indicates a complex mixture of imported social organization and values and the continued importance of some traditional value orientations in the Japanese society. It seems that Nakane (1971) is correct that social scientists have more often assumed westernization when they have written of modernization in the case of Japan, and that modernization theory has contained an ethnocentric bias.

Japanese Corporate Structure

A formal description of the Japanese corporate structure today looks much like that from the west, and the United States in particular, upon which the Japanese corporation was modeled. There are stockholders, shares of stock which bring stock votes in the affairs of the company, a board of directors elected by the stockholders, and annual stockholders meeting where management is to report to the stockholders. But though the Japanese corporate structure shares these formal characteristics with American corporations, it does not mean that this is all one needs to know in understanding Japanese corporate behavior (as the Texas corporate raider, T. Boone Pickens, found to his dismay when he tried to take a controlling interest in a Japanese corporation in the late 1980s) (3). We will begin with a short examination of the historical development of Japanese corporations, then turn to an analysis of current ownership and control patterns, and finally to an explanation of why these

ownership and control patterns show some contrast to those in the United States.

Japanese Corporate Development

Japan remained an isolated, primarily feudal society until the forced opening of the country by the United States in the 1850s (4). When Japanese political and intellectual elites recognized the danger for their weak nation in the face of European dominance of other Asian countries, the changes these elites tried to bring about, and other changes associated with the forced opening of Japan, stimulated something of a "top down" revolution known as the Meiji Restoration beginning in 1868 (Bendix 1978:482; Reischauer 1987; Reischauer and Craig 1978; Halliday 1975). With this Meiji Restoration the new Japanese government sent scholars throughout Europe and the United States to study all aspects of these more modern industrial societies so that Japan could learn as much as possible and as quickly as possible for their own drive toward political and economic development. These Japanese elites then copied specific aspects of many of these western industrial societies to establish or radically change Japan's political system, educational system, judicial system, military, as well as many other institutions, especially the economy.

Economic development and capitalism were achieved in a rather different way in Japan during this Meiji Restoration, a way that in fact, can be called state-sponsored capitalism (Clark 1979:25). The state began by creating government owned and -controlled industries. However, as the government needed money in the financial crisis of the 1880s, it sold many of the already established companies to wealthy merchants and other Japanese from the old elites (feudal lords, known as Daimyo, and former samurai) at remarkably low prices (Halliday 1975:59). This practice in time created a wealthy elite of upper class families, known as zaibatsu, who owned and controlled much of pre-War Japan's economy. Through the western pattern of holding companies, the top 10 zaibatsu families were said to control as much as 75 percent of Japan's industry, finance, and commerce before World War II, and owned 25 percent of all corporate stock by 1946 (Alletzhauer 1990: 108).

The aftermath of World War II brought the American Occupational reforms, many of which were focused on breaking up this zaibatsu, seen by General MacArthur as somewhat responsible for Japanese militarism. While the leading zaibatsu families owned about 25 percent of all corporate stock in Japan in 1946, they owned about 5 percent by 1950 (Alletzhauser 1990: 119). Occupation reforms required these families to give up most of their stock, and other reforms further reduced their power by outlawing holding companies (Clark 1979: 57). In 1949, 70 percent of all Japanese corporate stock was owned by individuals or families (Dore 1987: 113), but this was rapidly being reduced. Because few individuals had the money to buy the stock taken from the old zaibatsu families, much of this stock was bought by other corporations (Halliday 1975: 177). Then again, in the 1960s, when foreign investors threatened to buy up much Japanese corporate stock, there was a further increase in Japanese corporations buying the stock of other corporations (Dore 1987: 114). And it should be stressed here that it was not just financial institutions in Japan buying this corporate stock, but industrial corporations buying stock in other industrial and financial corporations.

The Ownership and Control of the Modern Corporation

The debate over the ownership and control of the modern corporation goes back at least to the Berle and Means' (1932) thesis of managerial control of corporations in their famous book *The Modern Corporation and Private Property*. Before this time it was clear who owned and controlled most corporations—the wealthy capitalist families. But as the 20th century progressed, the question of ownership and control became much more complicated. By the time of Berle and Means' original book, a number of larger corporations already had such a wide dispersion of stock ownership among so many people that in the absence of family voting blocs of 10 percent or more of the stock, it was Berle and Means' thesis that managers of these corporations (with little stock ownership) controlled the corporations by default.

The Berle and Means thesis, however, remained controversial for many years (5). But beginning in the 1960s research was showing that most major corporations in the United States were

not family controlled. For example, through examination of the stock control patterns of the 500 largest corporations in the United States, Larner (1970) concluded that about 75 percent of these corporations were not family owned. Burch (1972), however, studied these same corporation with various techniques to uncover hidden stock control (stock actually controlled by wealthy families under different names or otherwise hidden) and concluded that a slight majority of these corporations were actually controlled by wealthy families. Somewhat later, Kotz (1978) added the dimension of bank control of corporations as a front for family control when the family was able to control the financial institution (mostly banks). Kotz (1978) found a slightly higher level of family control of corporations than did Burch (1972) when bank control was considered.

Since this time, Kerbo and Della Fave (1983) have examined the ownership and control of major corporations using new data provide by the U.S. Congress under new laws that require more complete disclosure of stock ownership in U.S. corporations. These data show that a new aspect of the corporate ownership and control question involves the huge amounts of stock now controlled by financial institutions in the form of institutional investors (U.S. Senate 1978a, 1978b, 1980). By the late 1970s, almost 50 percent of all corporate stock in the United States was controlled by the institutional investors through their control of pension funds and other trusts used to invest in corporate stock. Using these data, Kerbo and Della Fave (1983) found only 11 percent of the biggest 122 corporations in the U.S. could be listed as possibly under family control (using the standard criterion of a family or individual owning 10 percent or more of the stock in a corporation, with no other group with more than 10 percent beingable to control that corporation). Another indicator of the significance of individual or family held stock in these 122 top corporations is the number of times families or individuals are listed among the top 5 stock voters in the corporations. Only 12 percent of the 610 top 5 stock voting positions (i.e., 5 x 122 corporations = 610 positions) are accounted for by individual or family investors.

In conclusion, these data pertaining to U.S. corporations suggest that when only the largest corporations are considered, the amount of family and individual ownership of corporate

stock drops dramatically. However, when considering the top 250, and certainly the top 500 corporations in the United States, significant amounts of family and individual control of stock continues to exist.

Ownership and Control of the Japanese Corporation

There has been much less research on the ownership and control of corporations in Japan (Morioka 1989: 155). This lack of research before World War II is likely related to the recognized fact that the zaibatsu families controlled most of the largest corporations, as we have indicated above. But the nature of corporate ownership and control in Japan has been changing rapidly since World War II, and we do have some research and data indicating these changes.

It is first important to note the extent to which the ownership and control of corporate stock is in the hands of financial institutions, institutional investors, and other corporations in Japan. Current estimates are that from 70 to 75 percent of all corporate stock in Japan is owned and controlled by financial institutions or other corporations (Morioka 1989: 160; Abegglen and Stalk 1985). Thus, with respect to all corporate stock in Japan, even less is now held by private individuals and families than in the United States. But there are other important differences. Most of the corporate stock not controlled by individuals and families in the United States, as we have seen, is controlled by institutional investors through their control of stock held by pension funds and trusts. In Japan, by contrast, very little of this corporate stock is controlled by institutional investors for pension funds, while 66 percent of all stock is directly owned and controlled by other corporations, with most of this owned by *other industrial corporations* (see Dore 1987: 112). In other words, most corporate stock in Japan is owned by other corporations, and this is also to say, they own each other. We will consider this point below, but we must now turn to the stock control patterns in specific corporations, rather than the categories of people or corporations owning stock in general, as considered above.

In one of the more recent studies of corporate ownership and control in Japan, Miyazaki (1982, 1985) examined the 300 largest corporations and found 6 percent to be controlled by

individuals or families, 49 percent to be controlled by other corporations, 37 percent management controlled (i.e., not enough stock is controlled by any particular stock holders to say they can control the corporation), and 2 percent to be controlled by government or "local public organizations" (see Morioka 1989: 155). We will have more to say about these "corporate controlled" corporations after we consider more recent data on a smaller list of the biggest corporations in Japan.

As noted above, when we consider only the very biggest corporations in the United States we find even less family or individual control. What about Japan? To help answer this question we have analyzed data pertaining to the largest 100 industrial corporations in Japan in 1988 and the largest 25 banks (6).

Table 1: *Stock Ownership Patterns in the Top 100 Japanese Industrial Corporations*

held by:	Number one stock holder positions percent of top positions
banks	16%
insurance & other	
financial firms	47%
families/individuals	10%
industrial corporations	19%
foreign firms*	5%
private trust fund	1%

Stock holders accounting for more than 10% in a single firm

held by:	number of cases
banks	0
insurance & other	
financial firms	0
families/individuals	8
industrial corporations	13**
foreign firms	3
utilities	2

Number of top 5 stock holder positions	
held by:	percent/number held
banks	34% (168)
insurance & other financial firms	44% (222)
families/individuals	8% (38)
industrial corporations	9% (49)
foreign firms	3% (13)
utilities	1% (4)
employee's organizations	1% (6)

source: *Japan Company Handbook* (1987)

* In one case this was a foreign individual.

** This includes cases of between 10 percent and 45 percent of the stock held because if more than 45 percent of the stock was held by another industrial firm it was dropped and considered a subsidiary of that firm.

As can be seen from Table 1, banks, insurance, and other financial firms account for 63 percent of all of the number one stock holder positions in the largest industrial corporations in Japan (7). Other industrial corporations account for another 19 percent of the number one stock voter positions (8). And only 10 percent of the number one stock voting positions are accounted for by families or individuals in these top 100 industrial corporations.

We next calculated how many times any family, individual, or other firm held more than 10 percent of the stock in any of these top 100 industrial corporations. As also shown in Table 1, banks, insurance, or other financial firms have no stock ownership above 10 percent, which is consistent with the law which prohibits more than 5 percent of ownership by banks (Abegglen and Stalk 1985: 189) (9). In 13 cases another industrial firm owns 10 percent or more of the stock (though less than 45 percent which we excluded as being a subsidiary firm), and in only 8 cases did a family or individual own 10 percent or more of the stock in an industrial corporation.

Finally, in Table 1 we present our analysis of the top 5 stock voting positions in each of the 100 top industrial firms. In results similar to what we found for the top stock positions in each firm, 34 percent of the top 5 stock voting positions are held by banks, 44 percent by insurance companies or other financial firms, 8 percent by families or individuals, and 9 percent by other industrial firms. Clearly, the financial firms dominate, with a total of 78 percent of all of the top 5 stock holder positions accounted for by these firms.

Table 2: *Stock Ownership Patterns in the Top 25 Japanese Banks*

Number one stock holder positions	
held by:	percent of top positions held
banks	12%
insurance & other financial firms	84%
families/individuals	0%
industrial corporations	4%
foreign firms	0%

Stock holders accounting for more than 10% in a bank	
held by:	number of cases
banks	0
insurance & other financial firms	0
families/individuals	0
industrial corporations	0
foreign firms	0

Number of top 5 stock holder positions

held by:	percent/number held
banks	13% (16)
insurance & other financial firms	66% (82)
families/individuals	0%
industrial corporations	20% (25)
foreign firms	0%
utilities	1% (1)
employee's organizations	1% (1)

source: *Japan Company Handbook* (1987)

Because of the importance of bank control and the bank control thesis in the United States, we have made a similar analysis of the stock ownership patterns in the 25 largest banks in Japan (10). Table 2 indicates that no family or individual held a number one stock holding position in a bank in Japan, and most of the top positions (84 percent) in these 25 banks were held by insurance firms or other financial institutions. In no case did any firm hold more than 10 percent of the stock in any bank, however. And in a pattern comparable to that for industrial corporations, most of the top five stock holder positions (79 percent) are again held by banks, insurance, and other financial firms. Another 20 percent of the top 5 stock holder positions are held by industrial corporations, and *none* are held by families or individuals.

Thus, for Japan, the more pertinent question with respect to corporations and corporate stock is not who owns, but what owns? The above data indicate that primarily financial but also industrial corporations own most stock in Japan, and this is especially so when we consider only the very largest corporations. Some social scientists claim that the old zaibatsu was never completely eliminated (and there some evidence for this with respect to the smaller zaibatsu corporations, Alletzhauer 1990: 119-122; Halliday 1975: 177), or has to some extent reemerged. However, certainly no one claims that the zaibatsu is anywhere close to the power of pre-World War II days. And in

contrast to the past when much of the zaibatsu family control operated through their control of big banks, our data show this is impossible today because families or individuals do not show up at all in Table 2 pertaining to ownership of stock in banks. Thus, we must look elsewhere when trying to identify any pattern of corporate control of corporate stock in Japan today.

Corporate Groups

There are at least three types of corporate groups in present day Japan (11). One kind of corporate group is primarily vertical in formation and related to the chain of suppliers and other customer corporations of the large core corporations in Japan today (Clark 1979: 73-74). For example, this type of group exists with Toyota at the top and other companies dependent upon Toyota's business (often referred to as *kogaisha* -- child companies) in weaker positions in the group, with the dominant company (Toyota) holding significant amounts of stock in the *kogaisha*.

There are other corporate groupings in Japan based upon more equal business relations among firms in several types of industries. The corporations in this type of group buy each others stock and hold it to cement business relations rather than for any specific monetary gain from the stock ownership. Unlike the first type of group described above, it is much more difficult to say a particular corporation is more powerful in the group. These corporate groups explicitly cooperate with each other with respect to their common political and economic interests, especially through *shachokai* (presidents' councils). Many of the larger corporations within this type of corporate group also will be leading members of the type of vertical corporate group described above, thus forming overlapping circles of vertical and more horizontal corporate groups (12).

Finally, with respect to the interlocking of corporations through stock ownership, there is a third type of group related to the question of bank control (Clark 1979: 75-76). At the center of many corporate groups are often big banks, and our tables presented above certainly indicated that big banks tend to hold more stock in other corporations than do industrial corporations. There is agreement that big banks used to dominate the

zaibatsu groups before World War II, but there is less agreement on the power of banks in Japan today. Among the evidence for bank dominance is the extensive stock ownership of banks, interlocking directorates from banks to industrial corporations (in the face of very few other outside directors overall in Japan, and especially so from other corporations), and the historically high dependence on banks by industrial corporations for capital (in contrast to raising capital through stock issues) (Abegglen and Stalk 1985:185; van Wolferen 1989:121; Morioka 1989:149). However, others, especially Clark (1979:77-78), argue that bank power has been overrated in Japan. In his view, banks are no longer so powerful because 1) there is a relatively high number of banks in the economy making for extensive competition and 2) other corporations are no longer very dependent upon commercial banks for capital because of internal sources of capital since the 1960s. And, as noted above, banks can no longer own over 5 percent of the stock of another corporation (Abegglen and Stalk 1985: 189). A full examination of the bank control thesis in Japan is beyond the scope of this paper, but it seems safe to say that, though banks may be powerful in Japan, they are not the only forces behind the patterns of corporate groups found in Japan today. Suggested reasons for the corporate group formations in Japan is our next subject.

Japanese Traditions and Corporate Characteristics

Thus far, we have seen that Japan consciously copied many of the primary characteristics of western corporate structure, beginning in the Meiji period, and especially so during the Occupation reforms after World War II. But we have also seen that though many characteristics of Japanese corporate structure are similar to those found in the west, there are significant differences. Two important differences pertain to the extensive amount of stock ownership by corporations themselves and the manner in which groups are formed among these corporations.

It might be argued that corporations buy extensive amounts of stock in other corporations for the same reasons any individual or wealthy family would do so -- for economic return and to control corporations. With the case of extensive Japanese corporate ownership of corporate stock, these reasons, however, do not seem plausible. First, corporations in Japan pay only

very small stock dividends, of about 1 to 2 percent of the face value of the stock, with no relation to yearly corporate profits (Abegglen and Stalk 1985: 184). Secondly, if stock is bought and sold by other corporations mainly for its appreciation, this stock would be traded more often, rather than held many, many years, irrespective of stock market conditions. Thirdly, if economic gain were the primary motivating factor, corporate financial resources would more likely go into expanding industrial capacity and market share, or at least be put into real estate which is where the big profits are being made. Fourthly, if stock ownership in other corporations was primarily to achieve control of other corporations, we would expect extensive interlocking directorates in Japan, with stock control used to gain a position on the corporate board. But such is not the case. In a major contrast to the United States, of an average of 30 board members in the average corporation in Japan, only 2 or 3 are usually outside directors, compared to about half in the United States (Clark 1979: 100; Abegglen and Stalk 1985: 185).

One typical explanation for why Japanese corporations buy each others' stock is related to the need for personal ties or personal relations between business partners (Clark 1979: 86; van Wolferen 1989: 110; Alletzhauser 1990: 34). Buying an extensive amount of a business partner's stock signifies the importance of the relations and the goodwill of the partner. Even if the attention and expense devoted to personal relations do not seem to make economic sense, especially to an outsider, the personal relations are maintained. A simple cold, calculated, impersonal business relationship, as is more the norm in the west, is less accepted in Japan. A long term relationship, and a business relationship based upon trust and predictability is more important. This is said to be how business relations were conducted in Japan before the Meiji Restoration, during the dominance of the zaibatsu, as well as in the present (Alletzhauser 1990: 34).

It is at this point that we can return briefly to our discussion of modernization and Parsons' concept of pattern variables. Though they are unlikely aware of the fact, the arguments used by western and Japanese social scientists as to why personal ties and mutual stock holding are important in the business world in Japan seem to be taken directly from Parsons, but in a direc-

tion the opposite of what Parsons and modernization theory would predict. Compared to the west, the affectivity rather than the affective-neutrality side of the pattern variable seems relatively more important in the Japanese economy, as is diffuseness rather than specificity, and particularism rather than universalism when relating to individuals, even in business relations. In Parsons' terms, a rather "unmodern" thing to do (13).

The greater importance of the group in Japan is often commented upon, and of course, is related to one of the pattern variables (self vs. collective) given less emphasis by Parsons in later works. The relatively greater Japanese tradition of focusing upon group needs more than individual needs and desires has many possible effects on the economy, such as a greater commitment to the work group, and hard work even without extensive personal monetary gain when individuals are motivated to work hard due to group pressure and commitment to group members (Japanese managers, for example, are the lowest paid among the advanced industrial nations and the overall level of income inequality is also the lowest among industrial nations, Kerbo 1991: chapter 13).

With respect to corporate structure, the importance of the in-group vs the out-group which is created by a higher level of group loyalty can help us explain why stock ownership does not bring significant stockholder rights in Japan (for a discussion of this lack of rights, see Abegglen and Stalk 1985: 175; Clark 1979: 100). This is also why Dore (1987: 12) describes Japan's economy as managerial production vs. shareholder-dominated capitalism. The mere purchase of stock in a corporation does not necessarily bring group membership. Stock holders, especially those holding small amounts of stock, holding the stock for the short term, and considered to be holding stock for personal economic gain, are not among the in-group (14). More than in the west, the corporation is seen as belonging to the employees (workers and managers) rather than outside stock holders. However, we can, of course, move to a higher level of group and use this same in-group vs. out-group analysis to understand the corporate group formations. While the level of identification (or sense of in-group) with a corporate *gurupu* or *keiretsu* would be much lower, we can still understand the tendency to

form these higher level groups in this aspect of Japanese society and culture.

We can conclude this section by noting that all differences in Japanese corporate structure can not be explained by culture, tradition, and "unique" social organization. For example, many of the rather unique characteristics of the Japanese economy can be understood with reference to Japan's late development as an industrial nation (Clark 1979; Halliday 1975). However, our main argument is that at least some important characteristics of Japanese corporate structure can be understood as a result of Japanese traditions and values that differ from most western industrial nations.

Modernization Theory Reconsidered

As noted in beginning this essay, modernization theory is steeped in the traditions of Durkheim, Weber, Tonnies, and Spencer, or at least how these classic theorists were interpreted by Parsons (Parsons 1937, 1951; see Cohen, Hazelrigg, and Pope 1975). With respect to comparative analysis, however, Max Weber and Emile Durkheim took fundamentally different approaches. Weber was much more likely to reject single causation in comparative and historical analysis in favor of a view which recognized a combination of causes (Smelser 1976: 145; Ragin and Zaret 1983: 740). In addition, Weber held out the possibility that similar affects could have differing combinations of causes (Smelser 1976: 142), requiring more detailed historical analysis of specific societies. Durkheim, on the other hand, looked for more single causation and general laws that could be applied cross-culturally to explain the same social outcomes in differing societies. Durkheim's style of comparative-historical sociology has been more popular, in part because it promises to reveal natural laws and accumulative knowledge like the physical sciences (Ragin and Zaret 1983: 749). It unfortunately seems that modernization theory has been more informed by Durkheim's style than that of Weber. Even among western industrial societies, the Durkheimian perspective in sociology has led us to neglect the variety of social arrangements and means of reaching industrialization (Giddens 1973). This may prove to be even more the case as we learn more about Japan, the first industrial society with a non-western cultural base.

Another problem which is credited to functional evolutionary theories, such as Parsons' view of modernization, is the assumption of a steady line of progress that all societies would follow in the social evolutionary process of modernization (Lenski 1976). This does not mean that any kind of evolutionary theory must be rejected, but it does mean that any evolutionary theory such as modernization theory must recognize greater complexity in the evolutionary path and in the mix of variables that lead to modernization. In other words, a modernization perspective giving greater recognition of Weber is needed if we are able to understand the variety of national experiences with modernization, and the causes and outcomes.

In this essay we have examined the history of Japan's corporate structure and how the west has been a model for Japan's development in many ways. However, we have also showed that differing historical forces and cultural traditions have made Japan's process of modernization somewhat different. And rather than following a steady line of modernization to catch-up with the west, as has often been implied in discussions of Japan's modernization, it can be said that Japanese traditions and particular historical circumstances have resulted in Japanese socioeconomic arrangements that now are being copied, to the extent possible, by the western industrial nations once thought to be leading the way for Japan.

The case of Japan seems to indicate that people such as Smith (1983) and Nakane (1971) are correct in suggesting that modernization has often incorrectly been assumed to mean the same thing as westernization. Thus, there was a cultural bias, an ethnocentrism, in modernization theory which implicitly assumed that western values (e.g., Parsons' pattern variables) could only fit well with a modern industrial technology. Which brings us back to Natsume Soseki, who worried in the early 1900s that western values would not always fit well with Japanese traditions, and that these values would be imposed upon Japan. Japan is certainly changing in many, many ways as the country becomes a more mature industrial society, but they are not necessarily changes imposed by the western model of modernization.

(1) For example, Junichiro Tanizaki presents a very ambiguous view the young westernizing Japanese in his novels such as *Chijin no Ai* (translated under the title of "Naomi"). And of course there is the famous Yukio Mishima who wrote many post-World War II novels with themes pertaining to the corrosive affects of western materialistic values on Japan (such as in his tetralogy translated under the title *The Sea of Fertility*). These early novels by Japanese writers such as Soseki deserve more attention by western social scientists for the understanding about Japanese society and culture they can provide. And this is especially so in the case of Soseki who perhaps best understood the west from his stay in London and study of western social science.

(2) In this regard it is interesting to note that many of the Soviet elite seem to accept this view, and have concluded that Japan is the most likely model for Soviet modernization. In 1990 the Soviet government began a process of sending scholars to Japan and inviting Japanese scholars to the Soviet Union so that they can perhaps copy the Japanese process of modernization and industrialization (see the *Los Angeles Times*, February 24, 1991).

(3) For a summary of these events, see the *Business Tokyo* article by Fuchs and Russell (1991). In brief, Pickens tried to gain control of the Koito Manufacturing Co., part of the Toyota Motor Co. *keiretsu* without much knowledge on his part of how the Japanese corporate structure really operates, creating a complex international business conflict, and personal disaster for his own business interests.

(4) It should be noted, however, that some scholars argue that Japan did have some internal economic development and "modernization" occurring during the Tokugawa period, which is another reason that Japan's feudalism was more similar to that of Europe than any other Asian nation (Arnason 1988).

(5) It should be noted that the Berle and Means' thesis continues to be controversial in many respects. While, as discussed below, it is now clear that few of the biggest corporations are owned and controlled by wealthy capitalist families, there is still

considerable question about whether these corporations are controlled by independent managers of each corporation (see Kerbo and Della Fave 1983).

(6) Our data on the top industrial corporations and banks as measured by total income comes from a list of the top 1500 corporations in Japan during 1988 published by *The Japan Times* publishing company (*The Japan Times*, 1988). Our data on the top stock holders in these companies for 1987 comes from the *Japan Company Handbook* published by Toyo Keisai Shinposha (1987). Among other relevant corporate data, this two volume book lists the top 5 to 10 stock holders in each of these corporations. We began with a list of the top 124 industrial corporations, but reduced the list to the top 100 listed in the *Japan Company Handbook*. Of the top 124 on our first list, 18 were not included due to government or foreign ownership. Then, another 6 were excluded as being subsidiaries of larger firms (with 45 percent or more of the stock held by a parent firm). Of the top 25 banks in our data from the *Japan Company Handbook*, we excluded three which are government owned (such as The Bank of Japan), and thus our 25th largest is actually the 28 largest of all Japan banks in terms of income for 1988.

(7) In all cases in Table 1 and 2 that lists insurance and other financial firms, the most numerous cases are insurance companies. The other financial firms include a few trust banks and real estate investment firms.

(8) It should be noted that we excluded subsidiaries of other industrial firms from the data, which we defined as an industrial firm with more than 45 percent of its stock held by another corporation.

(9) However, we did find a small number of cases in which from 5 to 5.8 percent of the stock was held by a bank or insurance company, which suggests that the law is not too closely watched or has been defined to mean that within the 5 percent range is acceptable.

(10) Our data exclude government owned banks, which means that the largest bank in Japan, in terms of income in 1988, The Bank of Japan, was excluded.

(11) There is some confusion over what these three types of groups are called. Clark (1979) uses the term "zaibatsu" to describe all three types, though he recognizes they do not correspond to the pre-World War II zaibatsu. Van Wolferen (1898: 46), however, refers to the groupings of corporations with more equal status as corporate *gurupu* and the more vertically linked corporations formed around dominant corporations and their suppliers as *keiretsu*. Abegglen and Stalk (1985:162), on the other hand, refer to the bank centered groups as *keiretsu*, and only refer to the other as corporate groups. We have seen business publications using the terms in different ways as well. Thus, we will simply refer to these as different types of corporate groups.

(12) Keiretsu and corporate *gurupu*s are not always easy to distinguish because vertical vs horizontal arrangements are relative in nature. Most often, however, a keiretsu group is clearly distinguished by the core company and subcontractor relationship in a specific industry, such as auto production, whereas a member of a corporate *gurupu* will be in several types of industry.

(13) This value on long term human relations in business relationships, where loyalty and commitment are more important than short term economic gain, is at the heart of much of the trade friction between the United States and Japan. During 1990 the Japanese and American Governments held talks referred to as the "Structural Impediments Initiative Conference" which in large part focused on the distribution system in Japan which is based upon these long term business ties between producers and distributors. These business relations in Japan do not fit with the universalistic, specificity, and affective neutrality pattern variables described by Parsons and, of course, conflict with western norms and traditions in doing business today. Thus, American firms are kept out of this distribution network in Japan, in contrast to another western nation where they would more easily be let into the network if it made economic sense to the distributors.

(14) This stress upon the in-group and loyalty to one boss is said to be the reason there are very few hostile take-overs in Japan, and in fact very few corporate mergers period (Abegglen

and Stalk 1985:202; Clark 1979: 86). And certainly "green mail" is considered very negatively: "In Japan, those who buy big blocks of shares and try to run up stock prices are thought of a corrupt and collusive, akin to gangsterism" (Alletzhauser 1990: 292). As noted earlier, this is something that T. Boone Pickens learned too late.

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