

Around Asia in 80 days: Uncovering inter-linked networks in the corporate landscape Keiretsu of Japan

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The Anglo-American corporate governance, [well documented in the literature](#), is a system in which investors are viewed functionally as specialized outsiders to the firm: shareholders hold only equity, and creditors hold only debt. Suppliers and corporate customers may extend credit to each other, but typically they do not have shareholding relationships [1]. Conversely, trading relationships on the European continent and Asia are often blended with financial ties. Companies are part of [complex customer and supplier networks](#) where financing patterns and trade are interlinked [2]. In addition, it is common for financial institutions to [hold both corporate debt and equity](#) [3]. This series of short essays aims to describe several conspicuous and well-known examples of such networks, ranging from the Japanese financial [keiretsu](#) to the bamboo network in Southeast Asia, from the four big families of Hongkong to more than 5.2 million household-based businesses in Vietnam.

What is it?

A keiretsu is a set of companies with interlocking business relationships and shareholdings. It is described as a type of informal business group with loosely organized alliances within the [social world of Japan's business community](#) [4]. The *keiretsu* system dominated the Japanese economy for the second half of the 20th century, following the [zaibatsu](#) dissolution after World War II, and to a lesser extent, according to Aoki [2], continues to play an essential role in the early 21st century.

The dissolution of the long-lasting [*zaibatsu*](#), followed by the newly created [*keiretsu*](#) system, appears to be a smooth transition in the Japanese economy for the [*laissez-faire*](#) audience, but the turning point of these two systems being the post-WW II might strike the mind of any deep thinkers. Therefore, it is worth taking a step back to examine the history of the *zaibatsu* and explain why this system was ended to give birth to the [*keiretsu*](#) network.

History of [*zaibatsu*](#) and [*keiretsu*](#)

[*Zaibatsu*](#), which means “wealthy clique” in Japanese, is any of the large capitalist enterprises of Japan whose influence and control were pervasive from the Meiji period until the end of WWII [5]. A [*zaibatsu*](#) is usually organized around a single family and might operate companies in nearly all important areas of economic activity. Tajima [5] also postulated that all *zaibatus* owned banks and used them as a means for mobilizing capital. The four biggest [*zaibatus*](#) were Mitsui, Mitsubishi, Sumitomo, and Yasuda, but there were also many smaller [*zaibatus*](#).



Figure 1: Marunouchi Headquarters for the Mitsubishi [*zaibatsu*](#), 1920 (Source: Japanese National Research and Development Agency)

In 1946, after the end of WW II, the Allied occupation authorities [*ordered that the zaibatsu*](#)

[be dissolved](#). Subsequently, stock owned by the parent companies was put up for sale, and individual companies of the [zaibatsu](#) empires were freed from the control of parent companies [6]. However, according to Addicott [6], the management of the individual companies was not radically changed, and to some extent, the coordination and control of the previous organization remained. As a matter of fact, Addicott pointed out that only 18 out of 325, mostly [zaibatsu](#) subsidiaries were ever actually dissolved. Interestingly, Kennan [7] [wrote in his memoir](#) that the complete dissolution of the [zaibatsu](#) was never achieved because the U.S. government rescinded the orders in an effort to reindustrialize Japan as a bulwark against communism in Asia. Addicott [6], nonetheless, attributed this to the fact that [zaibatsu](#) families managed to conceal their former wealth and attempted to ensure the firms they once managed were kept from being broken up and sold. Whatever the actual reason might have been, after the departure of the Allied occupation forces in the early 1950s, new businesses referred to as [keiretsu were formed from the bits and pieces of the zaibatsu](#) [8].

Keiretsu with inter-linked networks

To understand the nature of the [keiretsu](#) system, one should start with the basic characteristics of Japanese inter-corporate networks, which, as [McGuire and Dow](#) [9] noted, include equity and bank ties. Regarding equity ties, the ownership of Japanese firms is dominated by institutional and corporate holdings, with approximately 71%. These controlling shareholders are usually [inter-corporates, and banks who act as quasi-insiders](#), linked to the focal firm through other types of ties, such as the buyer–seller relationships, creditor–borrower ties, board interlocks, etc. [10]. Bank ties are another aspect of Japanese enterprises because Japanese firms rely heavily on bank debt for financing needs. They are often linked to a small number of banks, led by a ‘main bank’ for a significant portion of their financing needs [11]. Thus, these banks, acting as lenders and shareholders, are inclined to provide stable financing for firms in a network they tie.

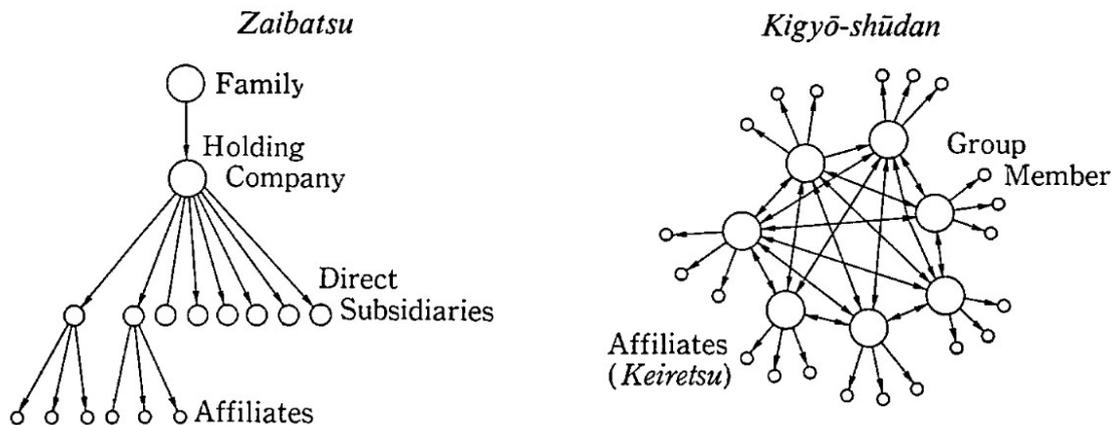


Figure 2: [Keiretsu](#) vs. [zaibatsu](#). Source: [12]

Figure 2 demonstrates the visual difference between a [keiretsu](#) and a [zaibatsu](#). As visually shown, a keiretsu is shaped like a spider net which is purportedly hard to be attacked externally. Not only does a [keiretsu](#) carry the patterns described above, but it also possesses other complicated interlinks. Specifically, [Morck and Nakamura](#) [13] found that sometimes other personnel ties complement equity ties, and transactional links reinforce the mutual interest in Japanese organizations. This fact hints at the [possible existence of cultural additivity](#) between [keiretsu](#) and [zaibatsu](#) [14]. As a result, [keiretsu](#) ties do not necessarily imply large individual equity holding. Rather, [keiretsu](#) members as a whole dominate the ownership structure. These multiple shareholding interlockings allow for a dispersed yet [concentrated ownership network](#) [9].

***Keiretsu* and its controversial roles in the Japanese economy**

There is no doubt that the mainstream literature supports the contribution of the Japanese [keiretsu](#) system to the Japanese economy. The system has long been considered a [strategic advantage](#) for Japanese firms [15-17]. In its heyday in the 1980s, the six largest groups accounted for about 16% of total sales and 13% of the total assets of the Japanese manufacturing industry [18]. However, many scholars have recently begun to [question the continued viability of this system](#) because the stable shareholdings and close banking ties may themselves be threatened due to the globalization of financial markets and the deregulation of Japanese securities markets [19].

Surprisingly, in sharp contrast, Miwa and Ramseyer (2002) from the University of Tokyo and Harvard University held a contrarian view of doubting the power of *keiretsu*. The authors asserted that the postwar [keiretsu](#) is a “fable” created by Marxist thinkers in the 1960s to

argue that monopoly capital dominated the Japanese economy. It is “creatures of the academic and journalistic imagination, from the start, they existed only because we collectively willed it thus” ([Miwa & Ramseyer](#) [20], p. 213).

Various views on the Japanese keiretsu make it one of the most studied topics of the Japanese economy. While the author of this writing favors the mainstream literature’s point of view, it is worth raising a question that requires further research: Has the [keiretsu](#) system ever exerted any impact to lengthen the Japanese “lost decades”?

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