Ahmadjian & Robbins (2005). "A Clash of Capitalisms: Foreign Shareholders & Corporate Restructuring in 1990s Japan", *American Sociological Review*, 70(3), 451-471.

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Questions

Q1: What characterizes **Japan's stakeholder capitalism** in comparison with the **Anglo-American system**?

Q2: Why & how do **foreign investors** affect **Japanese firms**?

Q3: Explain the underlying **rationale** for the **moderating effects** of **financial institutions** & **business groups** on the association between foreign ownership & firm strategy.

Q4: Do you think that **Japanese firms** are prone to **adopt** the **Anglo-American capitalism**? If yes, why? If not, why not?

Q5: Discuss **potential pitfalls & weaknesses** of this paper.

The Core Argument of This Article

Research Goal

- To address theoretical questions about **interactions between different business systems**.
- Is the **Japanese business model** being **dismantled** & **adopting** the **American shareholder system**?

Why Important?

1. This study has implications for a broader understanding of **institutional change**.
2. There is a dearth of research on the potential **mechanisms** by which **business systems change or continue**.
3. This study adds value to the **convergence-divergence literature** by investigating the **condition** under which **foreign investors** exert **pressures** to **firm strategy**.

A Clash of Capitalisms in Japan

Background & Theory

Key Points

- **A national economy** is **a configuration of actors** – the state, corporate elites, labor, capitalists – **whose interests** are **shaped** by **both formal rules & informal norms** (Aguilera & Jackson, 2003).
- **Q: WHY** don’t business systems converge even in the development of global markets for capital, products, labor & ideas?
  i. There is **no one best way** to **organize an economy**.
  ii. **Powerful actors** who shape institutions to advance their own preferences are likely to **resist change** (Fligstein, 2001).
- The **globalization** of financial markets & the emergence of **foreign investors** to invest in distant economies can be **a political process** by which **new actors with different interests** enter an economy.

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■ '2' Distinctive Business Systems

The Japanese System

> A wide range of stakeholders (*i.e.*, employees, banks, customers, suppliers & shareholders) influence firm strategy.
> Long-term relationships.
> An assurance of long-term employment & steadily rising wages for cooperative labor relations.
> Strong norms against downsizing since dismissing employees indicates an emotional issue.

The US System

> Shareholding is a vehicle for investment.
> "Investor capitalism" = "Maximizing shareholder value".
> Agency theory: Shareholders (**principles**) & managers (**agents**).
> Institutional investors > individuals.
> Pension fund managers could be sued if they do not act in the interests of beneficiaries.
> Firms that downsized often are rewarded by the stock market.

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■ Foreign Institutional Investors Come to Japan

❖ The Rise of Foreign Ownership of Japanese Firms

- Between **1990 & 2000**, foreign ownership of Japanese shares soared from **4.2% to 13.2%** of all listed shares.

❖ Which Foreign Investors Dominate?

- The **top shareholders** of each firm were overwhelmingly **United States or United Kingdom based**.
- Other foreign investors included **offshore funds** (**Bermuda**) & **German funds** (*e.g.*, **Deutsche Bank**).

❖ Differences from Domestic Investors?

- Foreign investors set **higher required rates of return** than domestic investors.
- **Rising pressures** to Japanese firms to perform **aggressive restructuring**, such as **reinforcing business portfolios** &/or **liquidating low-profitability assets**.

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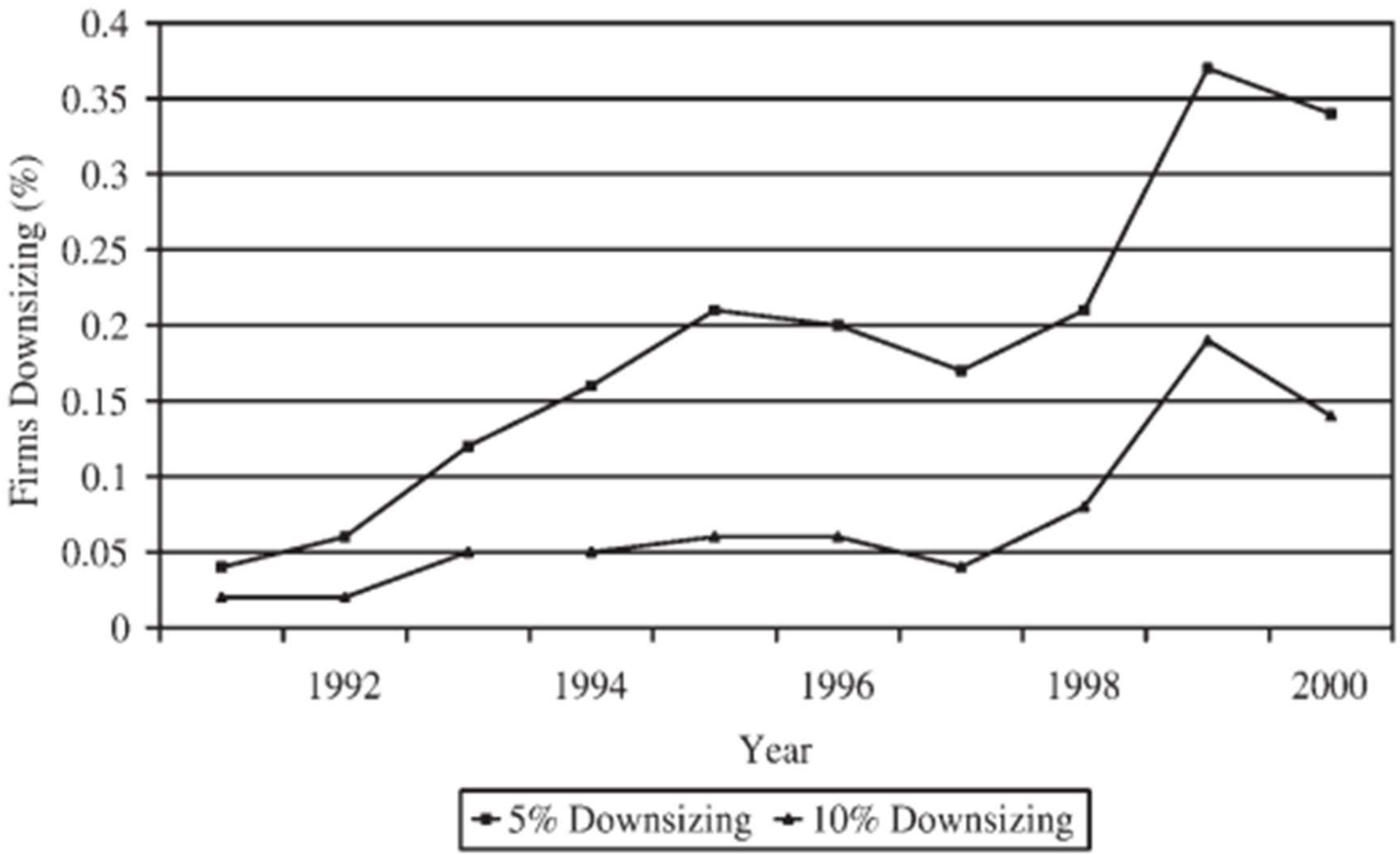
% of Firms Downsizing in a Given Year, 1991-2000



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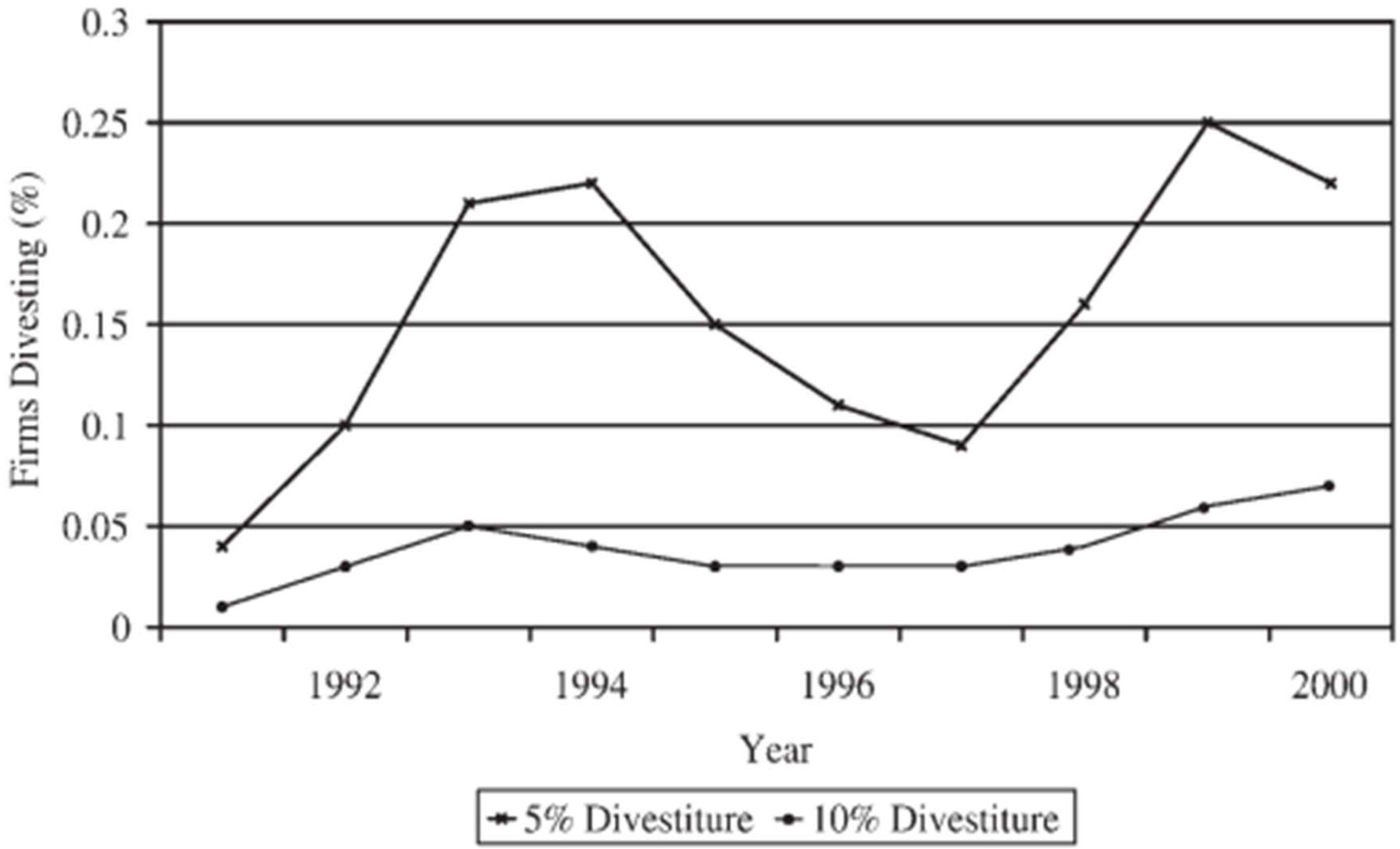
% of Firms Divesting Assets in a Given Year, 1991-2000



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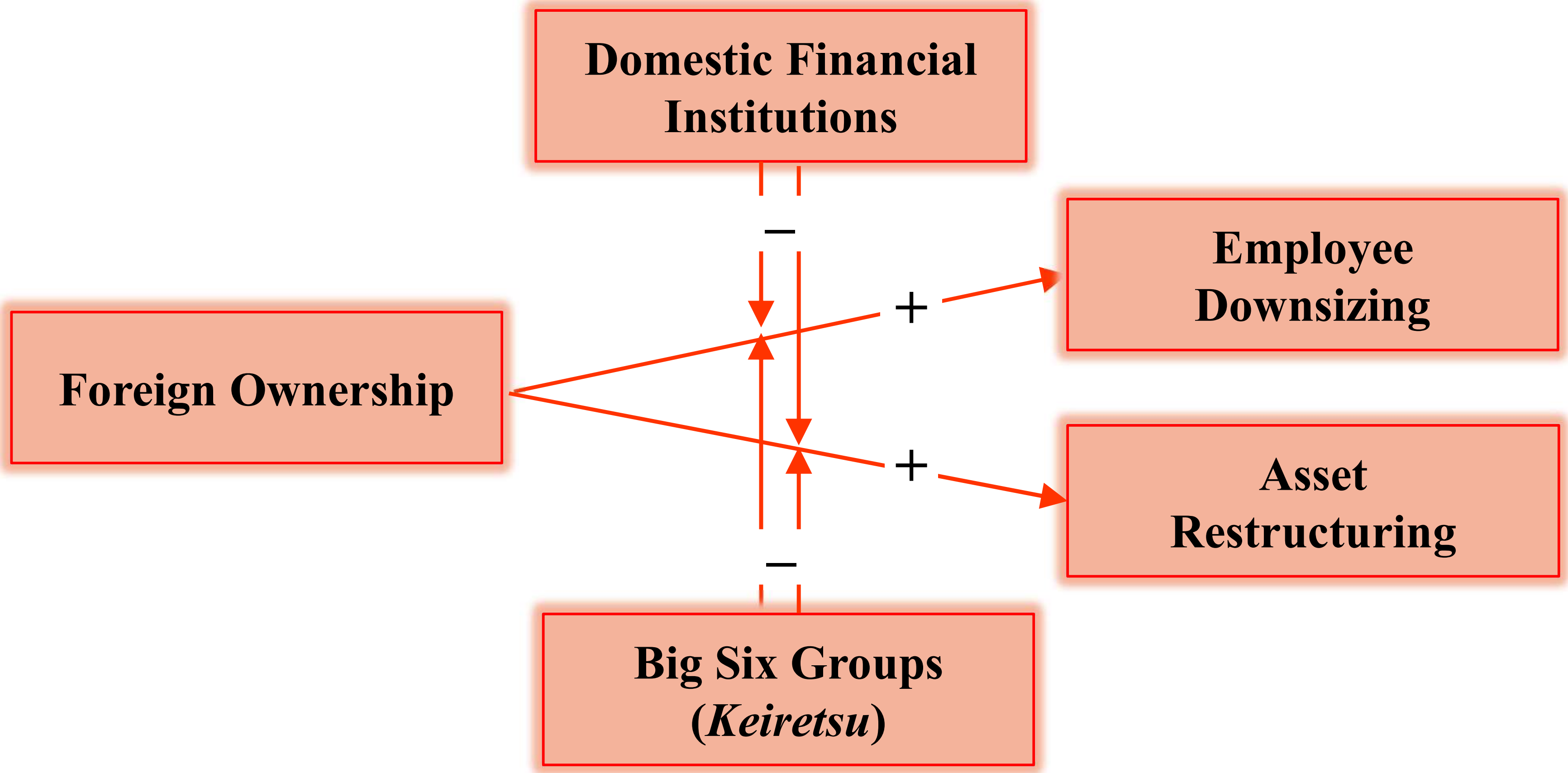
■ Conceptual Framework



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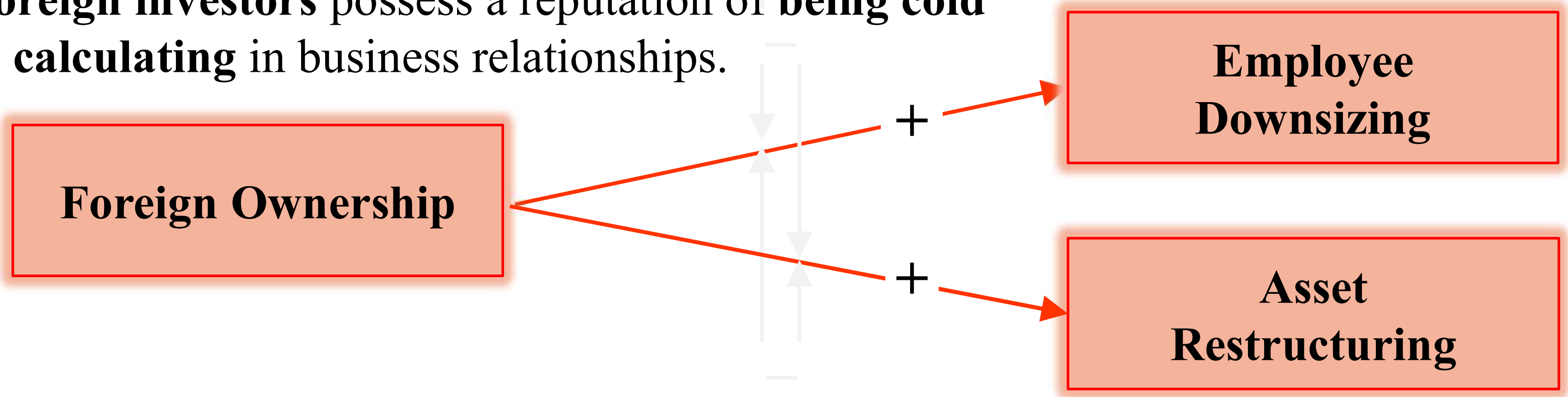
■ Hypothesis 1

- **Foreign shareholders** use **exit & voice** to make their interests clear to management.
- Foreigners has **an excessive influence on share prices** because they were much more **active in buying & selling shares** than their Japanese counterparts.
- **Foreign investors** possess a reputation of **being cold & calculating** in business relationships.



- *"When Japanese managers see foreign ownership on their share register moving from 5% to 10% to 20%, they feel* ***a strong psychological pressure*** *(a greater sense of urgency) to pay attention to* ***corporate governance****.*

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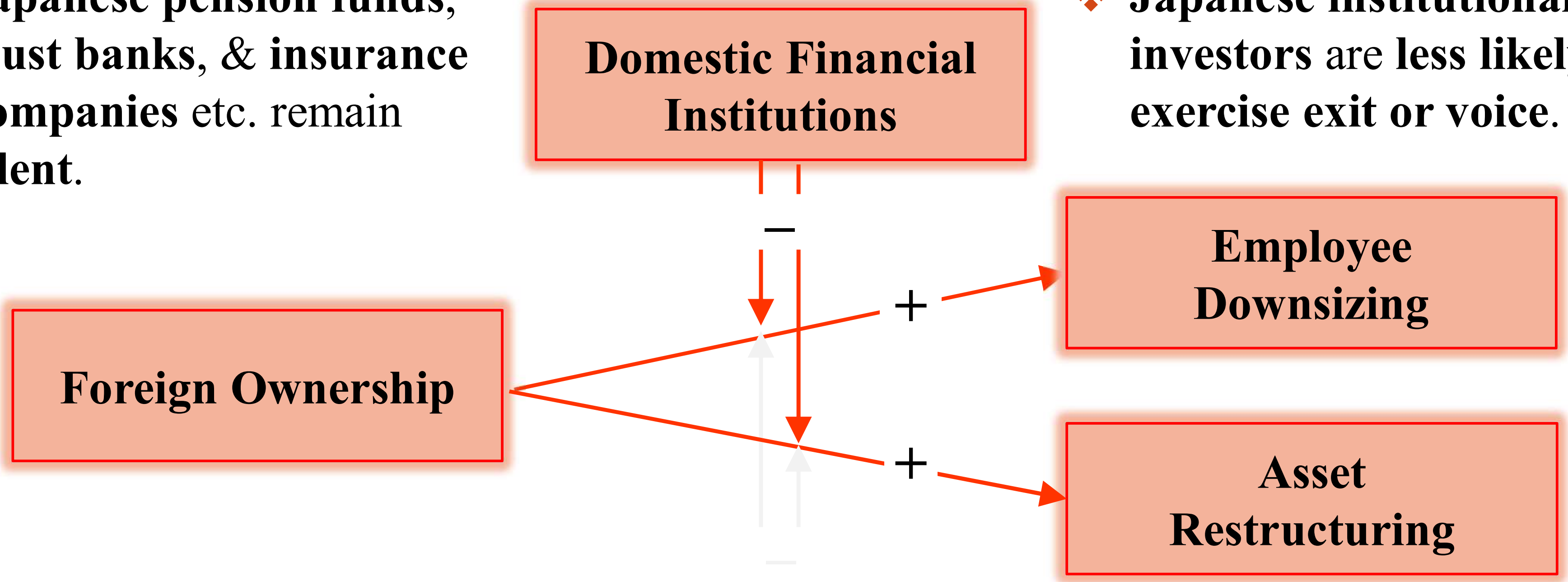
Hypothesis 2

- **Japanese pension funds, trust banks, & insurance companies** etc. remain **silent**.
- **Japanese institutional investors** are **less likely** to **exercise exit or voice**.



- **Japanese institutional investors** vote **against an immediate return** on their investments in favor of **maintaining long-term relationships**.
- "**Bankers** try to **avoid any drastic divesture** on the part of the clients at the expense of the bank's own profit because **banks** should be **socially responsible beings**."

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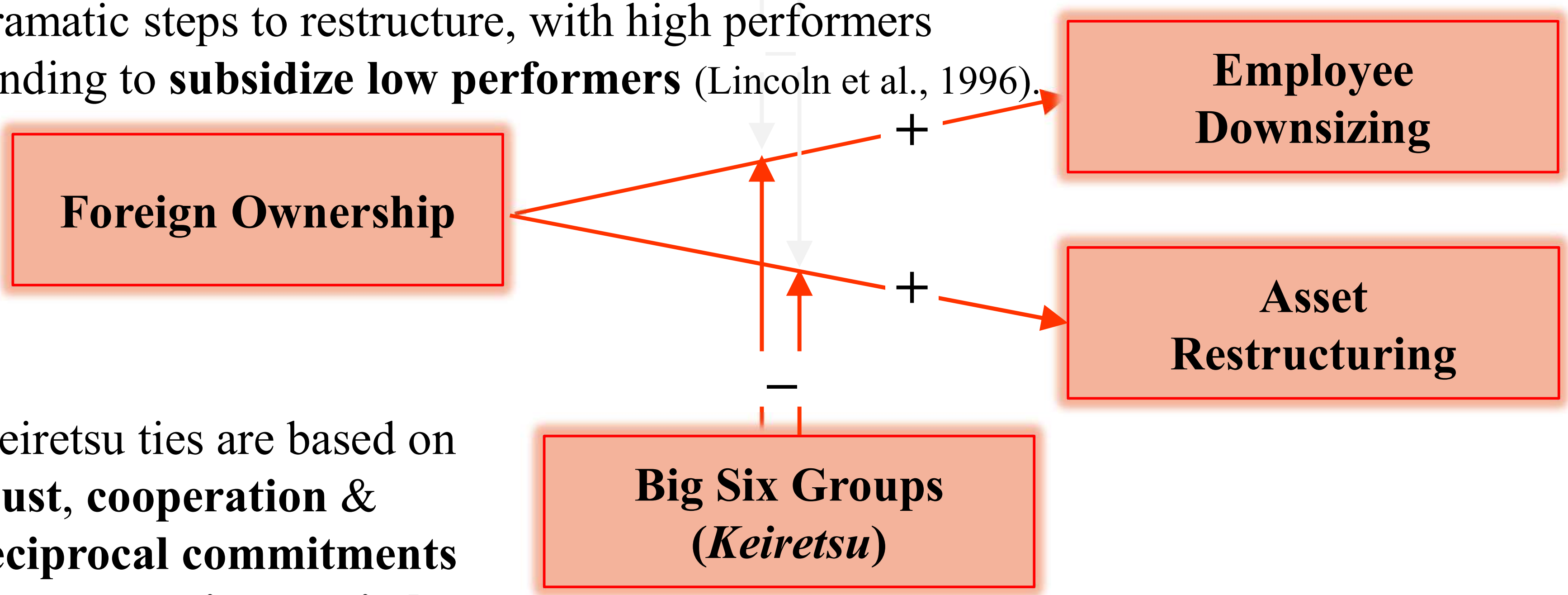
Hypothesis 3

- Social networks are important in Japan, where a dense web of ties, through **ownership stakes**, **interlocking directorships**, **groupwide councils**, & **trading relationships**, links many firms into business groups (Gerlach, 1992).
- Business groups buffer firms from needing to take dramatic steps to restructure, with high performers tending to **subsidize low performers** (Lincoln et al., 1996).



- Keiretsu ties are based on **trust**, **cooperation** & **reciprocal commitments** over **many time periods**.

A Clash of Capitalisms in Japan

■ Empirical Results (Downsizings of 5% of 1,108 Firms)

?

% Shares held by foreigners (t-1)		–.157	1.561**	.050	1.470**
		(.260)	(.562)	(.303)	(.564)
% Shares held by financial institutions (t-1)		–.258	.044	–.268*	–.005
		(.136)	(.161)	(.148)	(.164)
1 = Member of big six group		.130*	.137*	.296***	.252**
		(.054)	(.054)	(.079)	(.084)
% Foreign ownership * % Financial ownership			–5.320***		–4.588**
			(1.524)		(1.576)
% Foreign ownership * Member of big six group				–1.956**	–1.371
				(.734)	(.778)
Constant	–.357	–.441	–.456	–.349	–.390
	(.420)	(.448)	(.449)	(.539)	(.450)
Log likelihood	–4326.58	–4321.76	–4315.49	–4318.25	–4313.91

Note: Random effects probit coefficients with standard errors shown in parentheses; 18 dummy variables for industry significant, not reported.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

❖ **A group member** may be more likely to restructure if it knows that it can send its excess employees to another group member.

Empirical Results (Divestitures of 5% of 1,108 Firms)

% Shares held by foreigners (t-1)		–.023	1.836**	–.011	1.878**
		(.263)	(.564)	(.272)	(.567)
% Shares held by financial institutions (t-1)		–.031	.286	–.032	.305
		(.136)	(.161)	(.136)	(.163)
1 = member of big six group		–.021	–.014	–.009	–.067
		(.058)	(.058)	(.088)	(.089)
% Foreign ownership * % Financial ownership			–5.700***		–6.010***
			(1.522)		(1.573)
% Foreign ownership * Member of big six group				–.138	.642
				(.780)	(.808)
Constant	–.453	–.516	–.487	–.509	–.517
	(.441)	(.470)	(.471)	(.472)	(.473)
Log likelihood	–4165.57	–4165.47	–4158.32	–4165.46	–4158.01

Note: Random effects probit coefficients with standard errors shown in parentheses; 18 dummy variables for industry significant, not reported.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

❖ Firms with higher levels of ownership by **domestic financial institutuions** were able to resist the influence of foreigners.

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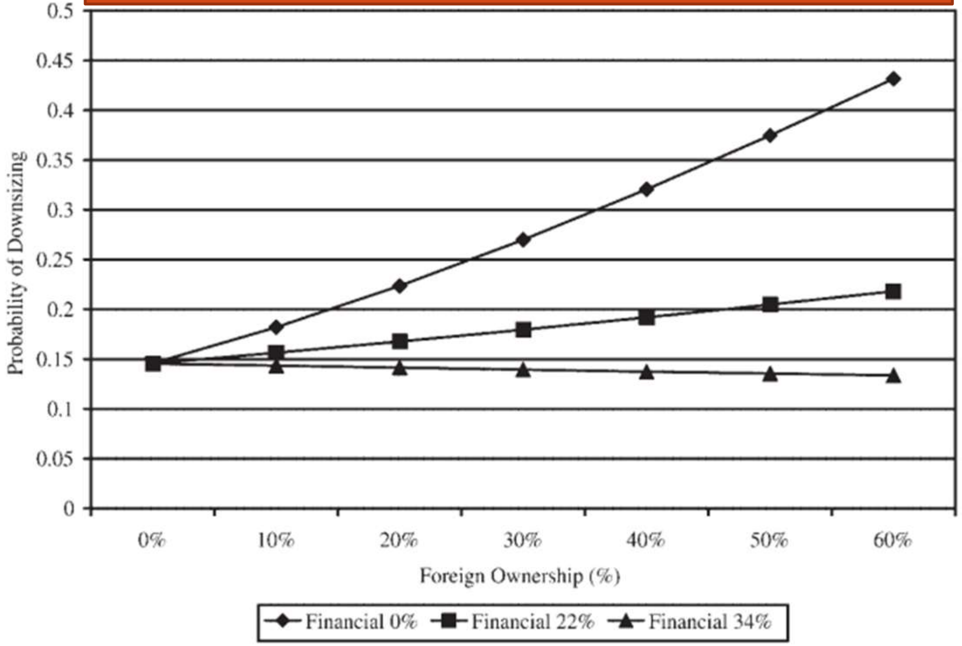
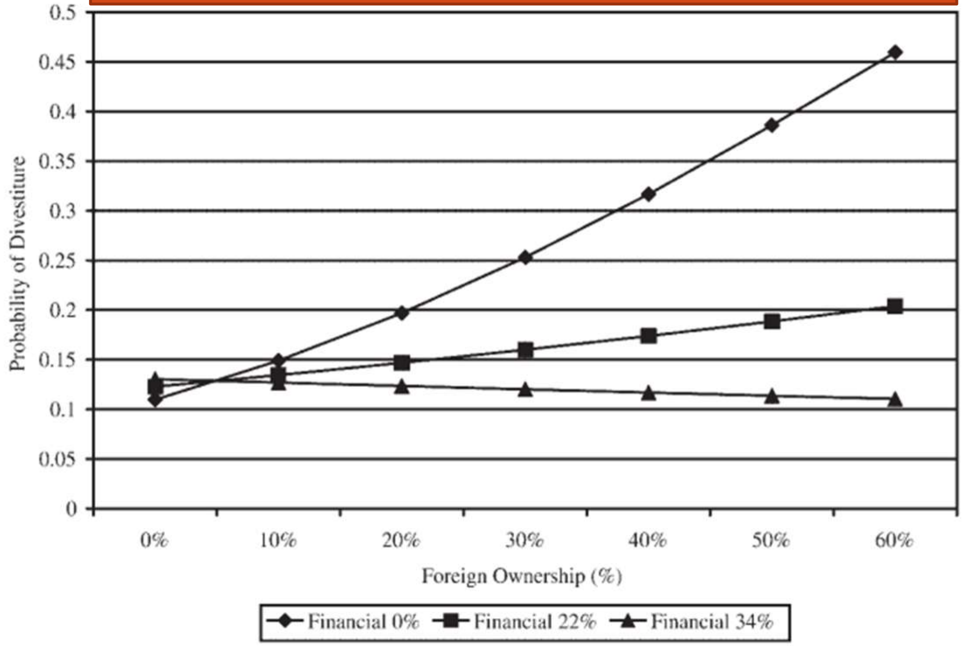
■ Foreign Influence × Financial Institutions

5% Employment Downsizing



❖ In a firm with no financial ownership, an increase in foreign ownership from 0 to 60% increases the probability of downsizing from 15 to 45%.

5% Asset Divestitures



❖ Foreign investors were influenced primarily in firms less embedded in the existing stakeholder system in terms of decreases in total tangible fixed assets.

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Conclusive Remarks

Managerial Relevance

- **Foreign ownership** leads to **increased restructuring** in **firms** that were **not embedded** in the **Japanese stakeholder system**.
- **Foreign actors**, with different interests & incentives, **replaced local shareholders** who were tightly linked to the stakeholder system.
- The **Japanese stakeholder system** was **not overwhelmed** by **a superior shareholder system**.
- Restructuring among foreign owned firms may **remove** the perceived **illegitimacy** of **radical strategic actions** & encourage their **spread** to **larger, older, & more prestigious firms**.

■ Conclusive Remarks

❖ Suggestions for Future Research

- Identify **different types of foreign portfolio investors** & their influence: e.g., large index funds, hedge funds, & other actively managed funds.

- The **validity** of this study’s results needs to be verified by **comparing** the **influence** of **foreign investors** across **national borders**.

- Further empirical efforts should be made to explore how **foreign investor influence** on **firm behavior changes** by **economies** & **cultures**.

The End of Today's Lecture

ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille!

Merci beaucoup!

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