Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 07 Issue 10 October 2024

Article DOI: 10.47191/jefms/v7-i10-48, Impact Factor: 8.044

Page No: 6549-6556

Balancing Equity and Innovation of Japanese Corporate Governance

Jungeun Elly Kim

Keio University

ABSTRACT: This paper critically examines Japanese corporate governance, evaluating its role as a benefit or constraint in achieving equity and efficiency. It contrasts Japan's stakeholder-oriented model, characterized by long-term stability and employee-centric management, with the shareholder-focused frameworks of the United States and the United Kingdom. The analysis focuses on the unique roles of CEOs in Japan, emphasizing their responsibility toward employee welfare over short-term financial gains. It further explores Japan's historical business structures, including Zaibatsu and Keiretsu, which foster interconnected corporate networks but limit flexibility and innovation. The relationship between firms and main banks within Keiretsu is analyzed, highlighting their role in financial oversight and stability. Additionally, the study addresses Japan's "Three Sacred Treasures" of labor-management relations—lifetime employment, seniority-based wages, and enterprise unions—as integral to its governance approach. Despite its strengths, Japan's model faces challenges, including limited board independence and slow decision-making processes. Recent reforms aimed at increasing transparency and aligning with global governance standards are discussed, suggesting a shift toward a hybrid model that blends traditional stability with market responsiveness. This paper provides a comprehensive analysis of the evolving dynamics of Japanese corporate governance, offering insights into its impact on Japan's global economic competitiveness.

KEYWORDS: Japanese Corporate Governance, Stakeholder Orientation, Keiretsu System, Equity, Innovation¥

I. INTRODUCTION

Corporate governance frameworks exhibit significant variation across different countries, each shaped by distinct underlying philosophies. The monistic outlook prevalent in the United States and the United Kingdom, is inherently shareholder-oriented. This perspective views the firm primarily as the private property of its owners, emphasizing the maximization of shareholder value, often at the expense of other stakeholders. The Anglo-American model emphasizes shareholder primacy, where shareholder interests predominantly influence corporate decisions, with minimal consideration for different stakeholders (Hansmann & Kraakman, 2001).

In contrast, Germany and France adopt a dualistic concept. Although still prioritizing shareholder interests, this approach also considers the interests of employees. It views the firm as a social institution where individuals can develop themselves freely, thereby adapting the monistic concept to include a broader range of stakeholder interests. The German model incorporates mechanisms such as codetermination, where employees have representation on corporate boards, ensuring their interests are considered in corporate decision-making (Jackson, 2005). Similarly, French corporate governance integrates stakeholder interests with a slightly different institutional setup compared to Germany (Aguilera & Jackson, 2003).

Japan's corporate governance model is fundamentally different and characterized by a pluralistic approach. This concept posits that the firm belongs to all stakeholders, with employees' interests often taking precedence. Practices such as long-term employee employment and enduring trading relations among various stakeholders—main banks, major suppliers, subcontractors, and distributors—collectively known as "Keiretsu" embody this approach. The Japanese firm is viewed as a community where various stakeholders, including employees, banks, and suppliers, have a vested interest in the long-term success and stability of the company (Yoshimori, 1995). Institutional diversity in Japan involves corporate governance structures designed to balance the interests of multiple stakeholders, promoting stability and long-term relationships over short-term gains (Aoki, 2000).

These variations in corporate governance frameworks reflect more profound cultural and institutional differences. The shareholder-oriented model in the United States and the United Kingdom is driven by a legal and economic environment that prioritizes market efficiency and shareholder returns. In contrast, the stakeholder-oriented models in Germany, France, and Japan reflect a broader social contract, where the firm is seen as an integral part of the social fabric, responsible not only to its owners but also to its employees, suppliers, and the wider community.

II. ROLES AND LEGITIMACY OF THE CEO IN JAPANESE FIRMS

In Japan, corporate management places a significant emphasis on the interests of employees and other stakeholders rather than solely focusing on shareholders. This employee-centered approach stands in stark contrast to the shareholder-centered Anglo-American outlook. Japanese CEOs prioritize job security over dividends, reflecting a broader commitment to employee welfare and long-term employment stability (Masaru, 1995). This approach contrasts sharply with the practices in the United States and the United Kingdom, where corporate management typically prioritizes maintaining dividends and shareholder returns over job security.

In Germany and France, corporate governance also balances multiple interests, integrating employee representation and stakeholder considerations into the decision-making process. However, these countries still lean more towards shareholder value compared to Japan. The German system of co-determination, where employees have significant representation on corporate boards, exemplifies this balance, though it does not reach the same level of employee prioritization seen in Japan (Jackson, 2005; Aguilera & Jackson, 2003).

In the Japanese concept of the corporation, the CEO or company president represents both employees and other stakeholders. The CEO's legitimacy primarily stems from his role as the defender of job security for employees, reflecting the broader stakeholder-focused governance model prevalent in Japan. This approach contrasts with the Anglo-American 'monistic' concept, where the CEO is seen as an ally of shareholders, prioritizing their interests, which may sometimes diverge from those of other stakeholders. This divergence can lead to a 'zero-sum game,' where the firm's long-term viability becomes secondary to immediate shareholder gains (Masaru, 1995).

The Japanese model emphasizes the CEO's responsibility to ensure the firm's stability and continuity, prioritizing long-term growth over short-term financial performance. It is deeply rooted in Japanese corporate governance's cultural and institutional fabric, where the CEO is expected to act as a guardian of the company's broader social responsibilities. This role includes maintaining harmonious labor relations, ensuring job security, and fostering long-term partnerships with suppliers and other business partners (Aoki, 2000).

In contrast, the Anglo-American model often sees the CEO's primary duty as maximizing shareholder value, with performance metrics closely tied to stock prices and financial returns. This focus can lead to decisions that prioritize short-term gains at the expense of long-term sustainability, such as cost-cutting measures that undermine employee morale and job security (Hansmann & Kraakman, 2001).

III. JAPAN'S UNIQUE BUSINESS MODELS: ZAIBATSU AND KEIRETSU

The Japanese corporate governance landscape is significantly shaped by two unique business models: Zaibatsu and Keiretsu. These structures have been pivotal in developing Japan's economy and influencing corporate practices today.

Zaibatsu were large, pre-World War II clusters of Japanese enterprises that controlled diverse business sectors. Typically controlled by a single holding company and owned by wealthy families, they played a significant role in Japan's economy. Zaibatsu, such as Mitsubishi, Mitsui, Sumitomo, and Yasuda, were vertically integrated and operated across various industries, including banking, manufacturing, and trading. These conglomerates held substantial economic power and were instrumental in Japan's industrialization and modernization efforts (Yafeh, 1995).

During the Allied occupation of Japan following World War II, the Zaibatsu were dismantled to democratize Japan's economy and reduce the concentration of economic power. The Antimonopoly Act of 1947 was a critical legislative measure aimed at breaking up these large conglomerates. Despite their formal dissolution, the legacy of Zaibatsu structures persisted and evolved into the Keiretsu system in the post-war era.

Keiretsu, meaning "series" or "grouping of enterprises," are networks of interlinked businesses with close interlocking relationships and shareholdings. These networks emerged as successors to the Zaibatsu and have become a defining characteristic of Japanese corporate governance. Keiretsu can be broadly categorized into horizontal and vertical types. Horizontal Keiretsu, also known as financial Keiretsu, are centered around a main bank and involve cross-shareholding among large corporations. Vertical Keiretsu, conversely, consists of supply chains led by a major manufacturer, typically in the automotive or electronics industries (Lincoln & Gerlach, 2004).

Keiretsu networks establish long-term distribution systems, creating a stable environment for supply and sales. These systems offer mutual economic benefits: subsidiary companies gain management know-how, secure markets, and financial stability, while parent companies ensure reliable quality goods and maintain stable relationships. This interdependence fosters a collaborative business environment that supports collective growth and resilience (Nakatani, 2020).

However, the rigid nature of Keiretsu can hinder flexible management and has been criticized for creating barriers to fair market competition. The close-knit relationships within Keiretsu can lead to complacency, reduced innovation, and barriers to entry for external firms. Additionally, the intricate web of cross-shareholding can complicate corporate governance and limit transparency (Ahmadjian & Lincoln, 2001). Recent studies highlight that while Keiretsu structures provide stability, they also pose challenges in adapting to the rapidly changing global market dynamics (Colpan & Hikino, 2018).

In Japan, aligning corporate goals with stakeholder interests fosters strong cohesion among shareholders, management, employees, banks, suppliers, and distributors. This collective approach emphasizes long-term cooperation, with an implicit understanding that mutual commitment supports both company survival and stakeholder prosperity (Yoshimori, 1995). The Keiretsu network structure, where firms operate as interdependent units within a conglomerate, enhances stability by enabling risk-sharing and mutual support, helping companies weather economic fluctuations (Sheard, 1989). This long-term, trust-based approach contrasts with the transactional, short-term focus prevalent in Anglo-American models, where shareholder value is prioritized, often at the expense of long-term stability (Aoki, 2000; Yoshimori, 1995). Consequently, Japan’s stakeholder-driven system promotes corporate resilience and stability, particularly during economic downturns, in contrast to the volatility seen in shareholder-centric models like those in the U.S. and U.K.

The Zaibatsu and Keiretsu systems represent unique aspects of Japanese corporate governance, reflecting the country’s historical and cultural context. While these models have contributed to Japan's economic growth and stability, they also present challenges regarding flexibility, innovation, and market competition. As Japanese corporations navigate the complexities of the global market, they continue to adapt and evolve, balancing traditional practices with modern governance principles to sustain their competitive edge.

IV. RELATIONSHIP BETWEEN JAPANESE FIRM AND MAIN BANK

The main bank plays a pivotal role in the Japanese Keiretsu system, providing financial support and exercising disciplinary oversight based on its financial and equity stakes. This relationship extends beyond financial transactions to include interventions such as emergency finance, financial reorganization, and managerial replacement, similar to external takeovers. Unlike the Zaibatsu institutions, any bank can assume this role, highlighting the flexibility and robustness of the Japanese financial support system (Hoshi, Kashyap, & Scharfstein, 1991).

The main bank's involvement ensures that companies within the Keiretsu network receive financial support, managerial guidance, and oversight, promoting stability and long-term planning. The main bank's role as both creditor and shareholder allows it to monitor the firm's performance closely and intervene when necessary to prevent financial distress. This dual role is crucial in mitigating the risks associated with corporate governance and ensuring that firms can navigate economic challenges effectively (Hoshi et al., 1991).

Moreover, the main bank's influence extends to the restructuring and revitalization of struggling firms, providing a safety net that helps maintain continuity and protect jobs. The system of collective security fosters a cooperative environment where firms are more willing to take long-term strategic risks, knowing that they have the backing of their main bank and the broader Keiretsu network (Sheard, 1989). This relationship contrasts sharply with the more transactional nature of bank-firm relationships in the Anglo-American context, where banks typically act as external creditors with limited involvement in the firm's management. In these systems, firms may face more pressure to meet short-term financial targets to secure continued financing, potentially compromising long-term stability (Aoki, 2000).

The implications of these different approaches are significant. The Japanese model, with its emphasis on stakeholder interests and the supportive role of the main bank, contributes to a stable and resilient corporate environment. This stability is crucial for fostering long-term growth and innovation, enabling Japanese firms to weather economic downturns more effectively than their Anglo-American counterparts, which often prioritize immediate financial performance over long-term sustainability (Yoshimori, 1995; Hoshi et al., 1991). In recent years, globalization and the need for flexibility have driven the dissolution and restructuring of Keiretsu relationships. Japanese firms are reducing cross-shareholdings and adopting independent management strategies to enhance competitiveness and innovation, influenced by foreign investors advocating for greater transparency and accountability (Miyajima & Kawamoto, 2019).

The traditional benefits of Keiretsu, such as financial stability and resource sharing, are being reexamined. Many companies are adopting hybrid models that retain collaborative advantages while incorporating flexible, transparent elements from Anglo-American governance systems (Aoki, 2018). Foreign institutional investors have accelerated this shift, pushing for stricter governance standards, leading some Keiretsu members to divest cross-shareholdings and improve financial transparency in line with shareholder interests (Yoshikawa et al., 2018). Additionally, competitive pressures and evolving market demands have prompted firms to streamline operations, focus on core competencies, and dissolve some Keiretsu networks in favor of more agile organizational structures (Colpan & Hikino, 2018).

V. THREE SACRED TREASURES OF LABOR-MANAGEMENT RELATIONS

Labor-management relations in Japan have historically been guided by three fundamental principles, often referred to as the "Three Sacred Treasures": lifetime employment, seniority-based wages, and enterprise unions. These principles have been instrumental in shaping the distinctive dynamics of Japanese corporate governance and labor relations.

Lifetime employment is a practice wherein employees are hired with the expectation of long-term, often lifelong, tenure with a single company. This system has fostered a strong sense of job security and loyalty among employees, contributing to high levels of commitment and low turnover rates. Lifetime employment was a cornerstone of Japan's post-war economic recovery, providing stability and fostering a culture of mutual trust between employers and employees.

The rigidity of lifetime employment, however, can reduce labor market flexibility, making it challenging for companies to adapt to economic fluctuations and technological advancements. While lifetime employment remains prevalent, its application is evolving due to globalization and competitive pressures. Younger generations, in particular, are increasingly favoring career mobility and merit-based advancement over traditional long-term employment (Kawaguchi & Ueno, 2019; Aoki, 2018). Companies are responding by offering more flexible employment arrangements, including fixed-term contracts and part-time work, to better respond to market demands (Kato, 2018).

The seniority-based wage system rewards employees based on their length of service rather than performance. This system promotes long-term commitment and loyalty, as employees can anticipate salary increases and promotions over time. It also reduces the risk of wage disputes and fosters a harmonious work environment (Abegglen, 1958).

However, the seniority-based wage system has been criticized for failing to adequately incentivize younger employees and high performers, potentially leading to complacency and reduced productivity. Recent research suggests that Japanese companies are increasingly incorporating performance-based elements into their compensation structures to attract and retain top talent, particularly in competitive industries such as technology and finance (Fujimoto, 2020; Moriguchi, 2017). This shift aims to balance the traditional stability of seniority-based wages with the need to reward merit and innovation.

Enterprise unions, which are specific to individual companies, play a critical role in maintaining harmonious labor relations in Japan. Unlike industrial unions that represent workers across an entire industry, enterprise unions are confined to a single company. This structure fosters a close relationship between union leaders and management, facilitating cooperation and mutual understanding (Abegglen, 1958).

While enterprise unions contribute to stable labor-management relations and effective conflict resolution within companies, they can also limit broader labor solidarity and collective bargaining power at the industry or national level. Recent studies highlight the challenges enterprise unions face in addressing broader labor issues, such as wage stagnation and job security, in an increasingly globalized and competitive economy (Kato & Morishima, 2002; Suzuki, 2018). To enhance their influence, some enterprise unions are seeking greater collaboration with industry-wide unions and labor federations.

The traditional labor-management relations characterized by the Three Sacred Treasures are undergoing significant changes in response to economic and social shifts. Globalization, technological advancements, and demographic changes are driving Japanese companies to reassess and adapt their labor practices.

The practice of lifetime employment is being redefined, with companies adopting more flexible employment arrangements, such as fixed-term contracts and part-time work, to better respond to market demands. This shift aims to balance job security with the need for labor market flexibility, particularly in industries facing rapid technological changes (Aoki, 2018; Kawaguchi & Ueno, 2019).

To address the limitations of the seniority-based wage system, many Japanese firms are integrating performance-based compensation models. These models aim to reward individual contributions and drive higher productivity, aligning employee incentives with company performance. This transition is particularly evident in sectors where innovation and competitiveness are crucial (Fujimoto, 2020; Moriguchi, 2017).

Enterprise unions are also adapting by seeking greater collaboration with industry-wide unions and labor federations to enhance their bargaining power and address broader labor issues. This trend reflects a growing recognition of the need for collective action to protect workers' rights and improve working conditions in the face of globalization and economic restructuring (Kato & Morishima, 2002; Suzuki, 2018).

Balancing Equity and Innovation of Japanese Corporate Governance

The Three Sacred Treasures of labor-management relations with lifetime employment, seniority-based wages, and enterprise unions have played a pivotal role in shaping Japan's corporate governance and labor dynamics. While these practices have fostered stability and loyalty, they are also adapting to contemporary economic and social challenges. As Japanese companies navigate the complexities of the modern global economy, they continue to evolve their labor practices to maintain competitiveness and sustainability.

VI. FLAWS IN CORPORATE GOVERNANCE SYSTEMS

Corporate governance systems in both Western countries and Japan face significant challenges, though the nature of these challenges varies due to the differing underlying philosophies and structures. In Western corporate governance models, particularly in the United States and the United Kingdom, key issues include the dual role of CEO and Chairman, lack of neutrality of outside directors, and multiple directorships. These issues undermine the effectiveness of boards in monitoring management. The duality, where one individual holds both positions and concentrates power, can lead to conflicts of interest and compromise board independence and oversight (Lorsch & MacIver, 1989). Additionally, the lack of neutrality of outside directors, who often have close ties to management, impedes their ability to provide unbiased oversight (Aguilera & Cuervo-Cazurra, 2004). Multiple directorships, where individuals serve on several boards simultaneously, dilute their attention and commitment, further weakening governance (Ferris, Jagannathan, & Pritchard, 2003).

Despite its strengths, the Japanese corporate governance model also has significant drawbacks. One major issue is the inefficiency in monitoring top management, exacerbated by practices such as cross-shareholding and an emphasis on consensus. Cross-shareholding, where companies hold shares in each other, creates a network of mutual dependencies that reduce pressure on management to perform efficiently, leading to complacency and a lack of accountability (Lincoln & Gerlach, 2004). The emphasis on consensus in decision-making, while fostering stability, can slow down the decision-making process and reduce firms' agility in responding to market changes (Dore, 2000). This focus on consensus can stifle innovation and adaptability, which are critical components of competitiveness in a rapidly changing global market (Aoki, 2000).

Moreover, the lack of external oversight from independent directors is another weakness of the Japanese model. Traditionally, Japanese boards have been composed predominantly of internal directors, often former company executives, limiting the diversity of perspectives and the ability to challenge entrenched practices (Gilson & Roe, 1993). This insularity can hinder the board's effectiveness in providing strategic guidance and holding management accountable. Additionally, while beneficial for employee security, the lifetime employment system can reduce managerial dynamism and the influx of new ideas, potentially resulting in less effective leadership over time (Ahmadjian & Robinson, 2001).

The combined effect of these factors can lead to corporate environments that are less responsive to external pressures and less inclined to pursue innovative and transformative changes. Both Western and Japanese firms face significant challenges in maintaining effective corporate governance, though the specific issues differ based on their respective models. In the global market, these weaknesses could pose significant challenges for firms striving to maintain their competitive edge (Lincoln & Gerlach, 2004; Aoki, 2000; Hansmann & Kraakman, 2001).

Japan suffers from significant dysfunctions, particularly in its monitoring system. These dysfunctions include the ritualized nature of the general meeting of shareholders, limited monitoring power of the chairman of the board, board members appointed by the president, large board sizes, and ineffective statutory auditors.

The effectiveness of shareholder meetings in Japan is often limited, as decisions are frequently pre-determined by management and major shareholders, reducing these gatherings to mere formalities. These meetings are typically highly ritualized, with outcomes essentially decided by corporate governance and significant shareholders in advance, undermining the potential for meaningful shareholder engagement and scrutiny (Aoki, Patrick, & Sheard, 1994). Cross-shareholding among Japanese firms exacerbates this issue by creating mutual dependencies that discourage dissent and limit the influence of minority shareholders (Lincoln & Gerlach, 2004). Recent studies highlight that despite efforts to improve transparency, the influence of major shareholders and pre-determined outcomes remain prevalent, affecting the overall effectiveness of these meetings (Yoshikawa & Rasheed, 2022).

In Japan, the board chairman’s role is often symbolic or advisory, with absolute power lying with the president. This separation diminishes the chairman's ability to supervise effectively. The chairman, who might have significant experience and knowledge, often lacks the authority to influence corporate decisions directly, while the president holds the executive power, leading to an imbalance in governance and reduced oversight (Morck & Nakamura, 1999). Recent research suggests that this structural imbalance continues to hinder effective board oversight, particularly in large conglomerates where the division of power is more pronounced (Nakamura & Tachibanaki, 2021).

Balancing Equity and Innovation of Japanese Corporate Governance

Japanese boards frequently consist of members appointed by the president, leading to a lack of independence and effective oversight. This practice results in boards that are more likely to align with the president's views, reducing their ability to critically evaluate and challenge management decisions (Tachibanaki & Noda, 2000). Outside directors, if present, typically have little influence due to their minority status and the board's overall homogeneity. Recent reforms aimed at increasing the number of independent directors have had limited success, with many outside directors still lacking the influence necessary to effect meaningful change (Fukui & Horie, 2020).

The large size of Japanese boards, often a reward for service, hampers detailed discussions and effective decision-making. Japanese boards can become unwieldy, transforming from governance bodies into motivational and marketing tools (Kaplan, 1994). The presence of numerous board members can dilute accountability and focus, making it challenging to conduct thorough and effective oversight. Recent analyses indicate that large board sizes continue to be a problem, with newer guidelines recommending smaller, more effective boards yet to be widely adopted (Saito & Uchida, 2020).

Statutory auditors in Japan are tasked with preventing detrimental decisions but often lack the authority and independence to function effectively. Auditors, who are supposed to act as a check on management, frequently find themselves constrained by their lack of formal power and the strong influence of management over their appointments and operations, undermining their role in ensuring corporate accountability and transparency (Higuchi, 2003). Recent studies indicate that while there have been improvements in the legal framework governing auditors, significant challenges remain in ensuring their independence and effectiveness (Kawamura, 2019).

While the Japanese governance model has fostered growth and international dominance for many firms, it also harbors inefficient top management monitoring risks. This became evident in the 1980s, with reckless diversifications and unethical behaviors highlighting the system's flaws (Nakatani, 1984). Recent research shows that similar risks persist, with corporate scandals and mismanagement continuing to expose weaknesses in Japan's corporate governance structure (Miyajima & Ogawa, 2021).

There are signs of convergence in corporate governance practices. Japan and Germany are edging towards the Anglo-American model, emphasizing increased openness and transparency and a greater focus on shareholder interests. However, Japan's traditional emphasis on job security is being eroded, driven by various factors, including competitive pressures and changing attitudes among younger employees (Kim, 2023).

The shift is partly due to globalization and the influence of foreign investors, who demand higher levels of transparency and accountability (Yoshikawa et al., 2018). Moreover, Japan's younger generation prefers merit-based advancement and performance-based rewards over lifetime employment, signaling a significant cultural shift (Kawaguchi & Ueno, 2019). These trends suggest that while Japan retains elements of its traditional corporate governance, it is increasingly incorporating aspects of the Anglo-American model to remain competitive in a global market.

VII. CONCLUSION

Japanese corporate governance, characterized by distinctive practices such as the Zaibatsu and Keiretsu business models and the "Three Sacred Treasures" of labor-management relations, was exceptionally well-suited to the economic environment of the late 20th century. This remarkable growth and stability period was captured in E.F. Vogel's seminal work, *Japan as Number One* (1979), highlighting Japan's ascendancy as a global economic powerhouse.

However, this governance model's rigidity and unique aspects, while advantageous in a stable and insular economic context, became less effective in the face of rapid globalization, technological advancement, and shifting economic conditions. These challenges were acutely felt during Japan's "lost decades," a period of economic stagnation that exposed the limitations of traditional practices such as lifetime employment, seniority-based wages, and the close-knit relationships within Keiretsu networks.

In response to these profound challenges, Japan has undertaken significant reforms aimed at modernizing its corporate governance framework. The introduction of the stewardship and corporate governance codes in 2015 marked a pivotal shift towards greater transparency, accountability, and shareholder engagement. These regulations were designed to enhance the role of institutional investors and align Japanese corporate practices more closely with those of Anglo-American firms, known for their emphasis on shareholder value and market-driven governance structures.

The stewardship code, in particular, encourages institutional investors to play a more active role in the companies they invest in, promoting long-term sustainable growth. Meanwhile, the corporate governance code sets out principles for listed companies to improve their governance practices, focusing on areas such as board independence, audit integrity, and executive compensation. These reforms aim to dismantle some of the entrenched practices that have historically impeded flexibility and innovation, such as the ritualized general shareholder meetings and the over-reliance on seniority-based promotions.

Balancing Equity and Innovation of Japanese Corporate Governance

While these reforms are still undergoing and their full impact remains to be seen, early indications suggest a positive trajectory. Companies are increasingly adopting more flexible employment practices, integrating performance-based compensation, and reducing cross-shareholdings to enhance transparency and competitiveness. There is also a growing trend towards smaller, more effective boards and greater collaboration between enterprise unions and industry-wide labor federations.

Furthermore, the evolving landscape of Japanese corporate governance reflects a broader cultural and strategic shift. They are now being complemented by more agile and market-responsive governance practices. This hybrid approach seeks to retain the strengths of traditional Japanese practices while incorporating the dynamic and competitive elements of global governance standards.

Japanese corporate governance is indeed undergoing a significant transformation. The traditional model that once fueled Japan's economic rise is being reformed to address contemporary challenges and align with global best practices. These changes, driven by both internal innovation and external pressures, are positioning Japanese firms to better navigate the complexities of the modern global economy. As these reforms continue to unfold, they hold the promise of revitalizing Japan's corporate sector and restoring its competitive edge on the world stage.

REFERENCES

1) Abegglen, J. C. (1958). The Japanese Factory: Aspects of Its Social Organization. Free Press.
2) Aguilera, R. V., & Cuervo-Cazurra, A. (2004). Codes of good governance worldwide: What is the trigger? Organization Studies, 25(3), 415-443.
3) Aguilera, R. V., & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants. Academy of Management Review, 28(3), 447-465.
4) Ahmadjian, C. L., & Lincoln, J. R. (2001). Keiretsu, governance, and learning: Case studies in change from the Japanese automotive industry. Organization Science, 12(6), 683-701.
5) Aoki, M. (2000). Information, corporate governance, and institutional diversity: Competitiveness in Japan, the USA, and the transitional economies. Oxford University Press.
6) Aoki, M. (2018). Revisiting the Japanese model of corporate governance: A historical perspective. Journal of Economic Perspectives, 32(2), 123-142.
7) Aoki, M., Patrick, H., & Sheard, P. (1994). The Japanese main bank system: An introductory overview. In M. Aoki & H. Patrick (Eds.), The Japanese main bank system: Its relevance for developing and transforming economies (pp. 1-50). Oxford University Press.
8) Colpan, A. M., & Hikino, T. (2018). The evolution of business groups in Japan and their impact on strategy. Asia Pacific Journal of Management, 35(3), 673-695.
9) Dore, R. (2000). Stock market capitalism: Welfare capitalism: Japan and Germany versus the Anglo-Saxons. Oxford University Press.
10) Ferris, S. P., Jagannathan, M., & Pritchard, A. C. (2003). Too busy to mind the business? Monitoring by directors with multiple board appointments. The Journal of Finance, 58(3), 1087-1111.
11) Fujimoto, T. (2020). The transformation of the Japanese employment system and implications for labor: A review. Journal of Industrial Relations, 62(2), 281-299.
12) Fujimoto, T., & Shiozawa, Y. (2018). The evolution of production systems in post-war Japan. International Journal of Production Economics, 205, 89-104.
13) Fukui, Y., & Horie, T. (2020). The impact of corporate governance reform on board independence: Evidence from Japan. Asia Pacific Journal of Management, 37(3), 805-828.
14) Gilson, R. J., & Roe, M. J. (1993). Understanding the Japanese keiretsu: Overlaps between corporate governance and industrial organization. Yale Law Journal, 102(4), 871-906.
15) Hansmann, H., & Kraakman, R. (2001). The end of history for corporate law. Georgetown Law Journal, 89(2), 439-468.
16) Higuchi, Y. (2003). The role of statutory auditors in Japan: Their responsibilities and limitations. Journal of International Business Studies, 34(3), 245-263.
17) Hoshi, T., Kashyap, A., & Scharfstein, D. (1991). The role of banks in reducing the costs of financial distress in Japan. Journal of Financial Economics, 27(1), 67-88.
18) Ito, K., Kimura, F., & Yoshikawa, T. (2022). Persistent challenges in Japanese corporate governance: A review of recent reforms. Journal of Corporate Governance Studies, 19(2), 113-130.
19) Jackson, G. (2005). Stakeholders under pressure: Corporate governance and labor management in Germany and Japan. Corporate Governance: An International Review, 13(3), 419-428.
20) Kaplan, S. N. (1994). Top executive rewards and firm performance: A comparison of Japan and the United States. Journal of Political Economy, 102(3), 510-546.

21) Kato, T. (2018). The changing nature of Japanese employment practices: Evidence from panel data. Asian Economic Policy Review, 13(1), 1-24.
22) Kato, T., & Morishima, M. (2002). The productivity effects of participatory employment practices: Evidence from new Japanese panel data. Industrial Relations, 41(4), 487-520.
23) Kawaguchi, D., & Ueno, Y. (2019). Changing employment practices and corporate culture in Japan. Journal of Japanese Studies, 45(2), 347-370.
24) Kawamura, A. (2019). Reforming the role of statutory auditors in Japan: Current challenges and future directions. Corporate Governance: An International Review, 27(2), 134-146.
25) Kim, J. (2023) Why has Japanese global competitiveness been declining in the automobile industry? Comparative analysis of Korea. Journal of Economic, Finance and Management Studies, 6(3), pp.1365-1378.
26) Lincoln, J. R., & Gerlach, M. L. (2004). Japan's network economy: Structure, persistence, and change.Cambridge University Press.
27) Lorsch, J. W., & MacIver, E. (1989). Pawns or potentates: The reality of America's corporate boards. Harvard Business School Press.
28) Masaru, Y. (1995). Whose company is it? The concept of the corporation in Japan and the West. Long Range Planning, 28(4), 33-44.
29) Miyajima, H., & Kawamoto, K. (2019). Corporate governance reforms and the dissolution of Keiretsu in Japan. Journal of Business Research, 103, 303-313.
30) Miyajima, H., & Ogawa, R. (2021). Corporate governance reforms and the risk of inefficient management in Japan. Journal of Corporate Finance, 67, 101887.
31) Morck, R., & Nakamura, M. (1999). Banks and corporate control in Japan. The Journal of Finance, 54(1), 319-339.
32) Moriguchi, C. (2017). Performance pay and productivity in Japan: Evidence from personnel data. Journal of the Japanese and International Economies, 46, 1-18.
33) Nakamura, M., & Tachibanaki, T. (2021). Power dynamics in Japanese corporate governance: The role of the chairman and the president. Japanese Economic Review, 72(1), 112-132.
34) Nakatani, I. (1984). The Japanese economic system: An institutional overview. Economic Studies Quarterly, 35(1), 1-23.
35) Nakatani, I. (2020). The resilience of Keiretsu: The Japanese corporate network and its evolution. Asian Business & Management, 19(4), 384-407.
36) Saito, T., & Uchida, K. (2020). Reducing board size for better governance: Evidence from Japan. International Journal of Corporate Governance, 11(3), 215-232.
37) Sheard, P. (1989). The main bank system and corporate monitoring and control in Japan. Journal of Economic Behavior & Organization, 11(3), 399-422.
38) Suzuki, H. (2018). The future of labor unions in Japan: Challenges and opportunities in a globalized world. Asian Labour Review, 24(3), 213-229.
39) Tachibanaki, T., & Noda, T. (2000). Governance structure and management style in Japan. International Journal of the Economics of Business, 7(1), 89-107.
40) Vogel, E. F. (1979). Japan as Number One: Lessons for America. Harvard University Press.
41) Yafeh, Y. (1995). Corporate ownership, profitability, and bank-firm ties: Evidence from the American occupation reforms in Japan. Journal of the Japanese and International Economies, 9(2), 154-173.
42) Yoshikawa, T., & Rasheed, A. A. (2022). Shareholder meetings in Japan: Evaluating the effectiveness of recent reforms. Journal of Corporate Finance, 75, 102215.
43) Yoshikawa, T., Zhu, H., & Wang, P. (2018). Foreign ownership and board independence: The case of Japanese corporate governance reform. Corporate Governance: An International Review, 26(3), 215-231.
44) There is an Open Access article, distributed under the term of the Creative Commons Attribution – Non Commercial 4.0 International (CC BY-NC 4.0)
45) (https://creativecommons.org/licenses/by-nc/4.0/), which permits remixing, adapting and building upon the work for non-commercial use, provided the original work is properly cited.
46) Yoshimori, M. (1995). Whose company is it? The concept of the corporation in Japan and the West. Long Range Planning, 28(4), 33-44.