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Japanese Corporate Group Re-Management

—*Toward Strategic Learning & Group Synergy*—

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Today, the world is witnessing a new era of competition with the development of new principles of organizing works, radical technologies, and *globalization*. Now is a turning-point for the Japanese economy and its corporate groups. The crucial question is HOW Japanese corporate groups will react to such decisive and inevitable change? This paper proposes that beyond corporate group re-structuring and re-engineering, *corporate group re-management* is crucial. Data was collected from Japanese listed companies through a postal survey. The data shows that Japanese corporate groups' environment, basic policy, strategy, and management scheme are changing. They also suggest that Japanese corporate groups actually have stronger strategy orientation and are becoming learning-oriented.

1. Introduction

Rapid advances in transportation and communication gave birth to the concept of the "shrinking world," in which the economies and people of the world have become increasingly interdependent. The buzzword for this phenomenon is "Globalization." Cross-border mergers and acquisitions are both a cause and an outgrowth of this move toward a global community.

Because of that irreversible trend, Japanese corporate groups have been a focus of debate in the strained trade relations between the United States and Japan. Now is a turning-point for Japanese corporate groups. The crucial question is therefore HOW Japanese corporate groups will react to such decisive and inevitable change?

To explore this question, this paper will, first, introduce the characteristics of Japanese corporate groups (Section 2); second, involve a questionnaire survey of 1,000 listed companies to discuss and illustrate today's Japanese corporate groups' general trend (Section 3); and finally, propose a conceptual framework for REMANAGING Japanese corporate groups (Section 4). The broad argument is that, *beyond corporate group re-structuring and re-engineering, corporate group re-management is of vital importance.*

2. Characteristics of Japanese Corporate Groups

In Japan, there are two types of business groups, or **keiretsu**: the Horizontal Keiretsu and the Vertical Keiretsu.

2.1. Horizontal Keiretsu

Horizontal Keiretsu are also called the conglomerate or the diversified Keiretsu or *Kigyo-shûdan* in Japanese. These involve mainly a main bank, an insurance company, a trust banking company, a trading company, and a few dozen large manufacturing companies under which small manufacturing companies are grouped (Gerlach, 1989, 1992; Orru et al., 1989). Six major groups[1] now exist in Japan: the Mitsubishi, Mitsui, Sumitomo, Fuyo, Sanwa, and Dai-Ichi Kangyo groups. All member companies are horinzontally related to each other by reciprocal stock ownership. While all members of the keiretsu are interdependent, each remains an independent company in terms of its sovereignty, decision-making, and its management's responsibility for the outcome of performance. Furthermore, in most cases, the stock for each company is listed in the Tokyo exchange market and the companies compete against each other for better performance.

2.2. Vertical Keiretsu

In Vertical Keiretsu, large manufacturing companies, such as Toyota, Nissan, Hitachi, Honda, Mazda, Sony, Mitsubishi Electric, NEC, Nippon Steel, Sharp, and Toshiba,[2] exercise decisive influence on suppliers and distribution outlets (Aoki, 1988; Asanuma, 1989; Fruin, 1992).

2.2.1. Long-Term Relationships

Although the relationships within vertical keiretsu may appear to resemble those between such U.S. manufacturing companies as General Motors, Ford, or General Electric, and their suppliers, the relationships within Japanese groups are actually very different. If American companies make arrangements, they tend to be the ownership of the supplier's stock. However, in Japan, especially among automobile manufacturers, not only is suppliers' stock partially owned by a parent-company but also the suppliers learn from the parent-company all methods of quality improvement, inventory control, and even general management know-how (Negishi, 1991).

At the same time, suppliers use the continuous and stable business relationship with the parent-company as a solid foundation for continuing to improve their operations while competing with other companies in the same business (Takamura, 1991a). In this way, suppliers progressively develop into being independent speciality-parts producers who possess rich know-how in technology.

In return for the stable business relationship with parent-companies, the suppliers accept and meet the parent-companies' demands for continous cost cutting and just-in-time deliveries (Takamura, 1991b). Those involved in the group transaction tend to develop long-term relationships between suppliers and customers.

Because of the coordination natural to such long-term relationships, parts produced by different companies within the group fit together very well so that, together, they tend to produce better quality products with low costs.

The supplier also participates actively with the final manufacturer in designing products and upgrading technology. In addition, the buyer is often allowed to examine the supplier's books, so any cost savings are passed on to the final manufacturer to be incorporated into the wholesale price or retail price of the product. Thus, the supplier is an integral link in the competitive strategy of a Japanese manufacturer. This is somewhere halfway in between an in-house producer, which is common in a company like General Motors, and a free sort of arms-length open bidding system that is also used quite a bit in the United States. So the ties are bolstered by such things as personnel exchanges. They have very loose contractual relationships that are based on long-term trust, so that if problems occur, problems are worked out according to the trust that they have in each other and the fact that they know they're going to be working with each other for a long time.

The long-term relationships also substitute for legal work in Japan, since in Japan most problems are resolved between suppliers and buyers through mutual trust and negotiation rather than resorting to law and litigation.

2. 2. 2. Distribution System

The vertical keiretsu also includes distribution systems, especially in certain products like consumer electronics, automobiles, cosmetics, confectionaries and musical instruments. This is where a manufacturer will actually own the entire distribution system all the way down to the retailer.

But Japan has an anti-monopoly law that prohibits practices such as resale price maintenance, exclusive dealing stipulations, and customer restrictions. However, the sanctions are relatively weak that the law appears to have had small effect. When successful anti-trust proceedings are brought against a company, the result is often a cease and desist order rather than a penalty.

While the corporate group system exists in Japan, any change is likely to be marginal in response to economic as well as political pressures. As Japan's distribution system is modernized, however, the single brand stores are likely to decrease in importance relative to large-scale marketers. In the case of cameras in Japan, Yodobashi Camera of Tokyo discounts cameras and sells a large portion of all cameras sold in Tokyo. Japan's camera makers have therefore been

forced to deal with this sort of discounter, and in the process, gradually, have lost control over much of their prices.

All of this raises one question of whether the corporate groups in and of themselves constitute illegal cartels or not.[3] In examining them, it appears that they do not, in the sense that vertical integration or diversified operations are not illegal per se. However, the fact that they exist makes violations of antitrust laws easier and also it is easier to administer guidance by the government, particularly if the government wants to enforce that guidance.

2. 3. Redefinition of the Keiretsu Concept

Throughout the next sections, in order to avoid any kind of confusion, I will focus my study on the vertical keiretsu, and use the term "corporate group(s)", "parent-company(ies)", and "group-member(s)", respectively. Indeed,

- Though many studies on Japanese corporate groups were already done (e.g., Aoki, 1988; Hamilton & Biggart, 1988; Lawrence, 1991; Fruin, 1992; Gerlach, 1989, 1992), the term KEIRETSU, which originally means *"group"* or *"series"*, is still confusing because, in fact, it can refer to both, horizontal and vertical types.
- In reality, the horizontal keiretsu are not functioning on single entity management. They do not have corporate group plan and they do not share a common future; there is few substantial policy-making or decision-making. In other words, the horizontal keiretsu's single entity management is virtually inexistent.

3. Today's Japanese Corporate Groups' General Trend: An Empirical Illustration

To gather a larger body of evidence about today's Japanese corporate groups, a postal questionnaire survey was conducted with a sample of 1,000 big companies listed in "*Tokyo Stock Exchange* (First Section)"[4]. The total response rate to be analyzed was about 25%.

3. 1. Environmental Changes and Key Issues

3. 1. 1. Recession and Business Strategies

During 1987-90, the period of Japan's "bubble economy," many of the major Japanese companies engaged in aggressive equity financing. These business strategies, however, were abandoned abruptly in 1990, in the aftermath of several huge downturns in the Japanese stock market. The consequences for both Japanese banks and corporations in the early 1990s were severe. Large banks and insurance companies suffered as the hidden asset values on which they had

relied heavily for expanding their businesses fell sharply. Most major companies' operational profits fell dramatically during the severe economic recession that began in 1991. And since 1992 companies have been obsessed with redeeming convertible bonds that they had issued during the bubble economy and that have not been converted to stocks.

All this is further straining the corporate group system. No longer able to rely on the old certainty that stock prices would be going up, Japanese companies and banks are far less willing than before to hold stock in corporate group -member companies. The volatile state of the Japanese stock market has driven off most substantial purchasers. Even if some companies wanted to issue new stocks, there is few to buy them.

This situation, painful as it is for Japanese companies, may however offer foreign business and Japanes firms outside of a corporate group an important opening into the network.

3. 1. 2. Corporate Groups' Core Businesses Maturity

Graph 1, on page 19, shows that 69.46% of parent-companies in the sample said that their core businesses are maturing. Some company officials and researchers however argue (*Chemical Week*, November 30, 1994) that, driven by current trends in the competition and political environments, corporate groups' present core businesses will wane sooner or later and they will have to supplement them with newer pillars.

On the contrary, other experts suggest that corporate groups are better able to gain benefits through streamlining business processes and focusing on core businesses. Kodak, for example, has been able to focus on its core business by outsourcing its data processing function to IBM's. Kodak has achieved cost savings through reducing personnel, reducing assets, and so on (*GAO Reports*, August 29, 1994).

In any case, Japanese corporate groups are increasingly entering into global strategic alliances and in the process restructuring the distinctive patterns of their overall industrial organization.

3. 1. 3. Corporate Groups' Restructuring

Considering Graphs 3 to 8, on pages 20-21, we understand that, on average, corporate groups' consolidated sales growth after Japan's "bubble economy" (from 1992 to 1994) is lower than their consolidated net operating profits growth during that period. This means to us that many corporate groups (44.44% in 1994) have been restructuring their industrial organization like Kodak, and have been cutting off costs and expenses and investments.

Nevertheless, combining Graphs 3 to 8 with Graphs 1 and 2 (on page 19), we

can also say that, understandably, the parent-companies are still continuing to focus most of their attention on their core businesses, whose products and markets are homogeneous. Parent-companies could cut down on their management risks and stimulate and facilitate entrepreneurial behavior by separating new businesses through the use of group-members or subdisiaries. That is, in order to be more competitive and to diversify, companies can set up subsidiaries or autonomous business divisions within their present corporate structure.

3. 1. 4. Deregulation and New Accounting Practices

Deregulation. The theoretical foundation of deregulation rests upon the concept of free competition. The basic concept of free competition states that the more freely that people compete, the more productive they will be.

The Japanese economy has been experiencing a gradual process of financial deregulation, which has been associated with greater efficiency but accompanied by instability in the form of unsustainable increases in asset prices (*OECD Economic Surveys—Japan*, November 1991).

The aim of financial deregulation is to increase competition, thus, raising efficiency of the financial system and with it overall welfare. The most obvious benefits of the reforms have been to widen portfolio choice, extend investment opportunities, and eliminate cross-subsidisation among depositors. The result will be a more efficient allocation of scarce capital resources.

Moreover,

- Financial deregulation and innovation has also made corporate liquidity reserves readily usable either for fixed or financial investment purposes.
- Deregulation and globalization have made market interest rates more flexible.

In other words, deregulation is opening the door for corporate group outsiders to break into the network.

New Accounting Practices. Financial-reporting reforms being considered by international regulators on a number of fronts would end the Japanese practice of buying and selling securities simultaneously for quick paper profits. They would also force financial institutions to disclose larger amounts of bad loans than they do now.

But while the prospect of stricter disclosure rules may not sit well enough with Japan's business community, it suits investors, which have long sought to obtain more detailed information about companies.

Moreover, in the past, corporate group-members were asked to establish their financial statements separately and taxes were (and are still) deducted

from each corporate group-member's result. Parent-companies therefore claimed that it was unfair, so that actually, consolidated financial statements are considered and officially practiced. The consolidation system has been and will be strenghtened by other potential changes in the Japanese accounting systems (e. g., the range of consolidated subsidiaries is actually widely extended). Corporate groups will try not only to improve the performance of parent-companies, but that of the corporate group as a whole.

In other words, corporate group re-management is becoming of vital importance.

3. 2. Internal Changes

Significant changes in the Japanese corporate groups are much more likely to result from internal factors than pressures from outside.

3. 2. 1. Corporate Groups' Basic Policy

Range of Corporate Groups. According to Graph 9, on page 22, presently, corporate group-members are mainly subgrouped either by business area and/or by function and/or by ownership ratio. Though Graph 10, on page 22, still predicts that these subgrouping criteria will predominate in future, they also show that the percentages of corporate group-members subgrouped by function and by strategic focus will increase whereas those by other criteria will decrease. In other words, group-member subgrouping method tends to be strategy-oriented rather than operation-oriented. And this gives us a hint of corporate groups' policy trend.

Corporate Groups' Policy. Table 1, on page 8, tells us that:

- With the Japanese economy in recession, industry is no longer expanding, and parent-companies have not been able to widely contribute to the traditional long-term relationship. Thus, strategically, they release their group -members to promote autonomous management in order to contribute for them. In 1986, when a sudden appreciation of the yen slowed the Japanese economy, even Toyota advised its subcontractors to have some autonomy and to build up business with other contractors (Mori, 1994).
- Up to now, the formation and development of Japanese corporate groups were not always undertaken strategically. It was just a natural course of development; it was rather for operational purposes than for strategical purposes.
- In quite a few cases, one of the subsidiaries' major purposes and roles is to accept senior managerial persons' second career as CEO or directors until their retirement.

Table 1 : Corporate Group Management Policy

Policy	Parent-companies (Present %)	Parent-companies (Future %)
GROUP-MEMBERS' AUTONOMOUS MANAGEMENT	53.42	78.64
CONTRIBUTION TO PARENT-COMPANY	48.50	67.56
CO-EXISTENCE & CO-PROSPERITY WITH OTHER GROUP-MEMBERS	58.01	71.23
CORPORATE GROUP'S TOTAL POWER	64.11	89.24
DEVELOPMENT OF GROUP BUSINESS STRATEGY	40.87	74.09
DECENTRALIZED & DYNAMIC GROUP OPERATIONS	17.39	44.55
MERGER, BUYING OUT, & REORGANIZATION	17.40	63.18

- Japanese corporate groups are becoming aware that investment is also important because, increasingly, it has become necessary for firms to have an investment position in order to compete globally. Strategically, it is very important to be able to acquire firms because that is another way of obtaining know-how.
- Japanese corporate groups are very convinced that they need a strong business competing power to succeed in the current era. To achieve this goal, they are planning to foster their group business strategies and their total power.

In sum, Japanese corporate group policy is shifting to strategy orientation and is promoting group synergy.

3. 2. 2. Corporate Groups' Strategy

Directions of Strategy. Table 2, on page 9, shows us that:

- Japanese corporate groups' strategy change to total management is due to the changes in accounting practices (widened practice of consolidated financial statements) and the changes in their policy to promote corporate groups' total power and groups' business strategy. In other words, now more than ever, Japanese corporate groups have to acknowledge their need for re-management.
- The strategy change from keeping lower profitable group-members to focus on high profit businesses is a logical consequence of the change in corporate groups' policy to confer management autonomy to group-members.
- Strategy change in more focused areas of products and businesses confirms that parent-companies want to focus most of their attention on their core businesses more than ever before. As we mentioned earlier, however, parent-companies could cut down on their management risks and stimulate

and facilitate entrepreneurial behavior by separating new businesses through the use of group-members or subsidiaries. That is, in order to be more competitive, companies can set up subsidiaries or autonomous business divisions within their present corporate structure.

Driven by current trends in the competition and political environments, indeed, corporate groups' present core businesses might wane sooner or later and they will have to supplement them with newer pillars.

- Strategy changes to external (to the group) trade centered and to effective utilization of external resources offer foreign businesses an important opening into the Japanese market. They also clearly tell us that Japanese corporate groups' strategy is shifting from defensive alliances to strategic alliances. And that is consistent with their move to strategy orientation.
- Strategy change to progressive development of overseas markets hints to us that Japanese corporate groups are also on their way to globalization. It is not necessary to deny that Japan is only reluctantly opening its markets in order to suggest that crude import targets will not be effective in speeding up the progress of liberalization. They know that investment is also important because, increasingly, it has become necessary for firms to have an investment position in order to compete globally.
- Corporate groups' strategy change to allowing group-members' participation in strategy formulation confirms their desire to foster group prosperity, group total power, group business strategy, and decentralized and dynamic group operations, that is, their group synergy.

In sum, Japanese corporate groups are really changing their direction in terms of strategy to better fight for success in the new era of competition.

Table 2: Directions of Corporate Group Strategy

Strategy	Parent-companies (%)
FROM INDIVIDUAL MANAGEMENT TO TOTAL MANAGEMENT	56.96
FROM KEEPING LOWER PROFITABLE COMPANIES TO FOCUSING ON HIGH PROFIT BUSINESSES	68.78
FROM 360° APPROACH TO MORE FOCUSED AREAS OF PRODUCTS AND BUSINESSES	73.31
FROM WITHIN-GROUP TRADE CENTERED TO EXTERNAL TRADE CENTERED	65.55
FROM INTERNAL RESOURCE CENTERED TO EFFECTIVE UTILIZATION OF EXTERNAL RESOURCES	55.94
FROM DOMESTIC MARKET CENTERED TO PROGRESSIVE DEVELOPMENT OF OVERSEAS MARKETS	56.29
FROM CENTRALIZATION OF STRATEGY FORMULATION TO ALLOWING GROUP-MEMBERS' PARTICIPATION IN STRATEGY FORMULATION	72.04

Corporate Groups' Core Capabilities. Graph 11, on page 23, shows us that group integrative power, members' dynamic collaboration, individual company competitiveness, and technical and product development capabilities will remain the main Japanese corporate groups' core capabilities in the future. They are expected to be supported by sophisticated use of information and information network capabilities in the future.

Following the general trend of their policy and strategy, Japanese corporate groups' core capabilties are also oriented to group synergy and are developed for higher learning and strategical purposes rather than operational aims.

3. 2. 3. Corporate Groups' Management

Corporate Groups' Management Scheme. According to Graph 12, on page 24, a majority of Japanese corporate groups do not have regional headquarters or group general head-offices or a corporate group recruitment policy. Most of them rather have the following: main bank, personnel transfer system (SHUKKO/TENSEKI), collaborative R & D system, group presidential meetings, collective sales network, corporate group trading system, technical advice and transfer system, market and customer information sharing system, collective information system, lower interest loan and debt guarantee system, and down-ward expatriation system.

Graph 13, on page 25, however, tells us that Japanese corporate groups will maintain and strengthen the market and customer information sharing system, the down-ward expatriation system, the collective information system, the technical advice and transfer system, the collective sales network system, and the collaborative R & D system, that is, *the soft type scheme*, whereas, loosen or weaken the others, which I name, *the hard type scheme*, such as regional headquarter system, corporate group recruitment, horizontal expatriation, and so on. This is a logical result of the corporate groups' policy and strategy choice.

The soft type scheme is concerned with strategic learning and group synergy, while the hard type scheme rather is concerned with operational purposes. In brief, now is the time for Japanese corporate group re-management.

Trading & Financing Principles. Concerning internal corporate group trading, Table 3 shows that, in the future, Japanese corporate groups will give more importance to multiple ordering schemes, contribution and commitment to the design-in (which means close and wide joint study between parent and group -members in the development process of products), and participation in information systems.

This suggests that Japanese corporate groups are becoming more learning -oriented. Indeed, *the essence of re-management is to create a learning corpo-*

rate group.

Concerning the financing schemes of group-members, Table 4 suggests that most of corporate group-members in the sample (44.64%) will self-finance, in the future, rather than being financially supported by parent-companies. In other words, group-members are expected to be financially more independent, in the future. This is consistent with the corporate groups' policy to confer autonomous management to group-members.

Performance Evaluation and Its Application. Though Table 5 says that

Table 3 : Most Important Principles to Within-group Trading

Principles	Parent-companies (Present %)	Parent-companies (Future %)
MARKET PRICE	75.00	73.51
COST-PLUS SCHEME	89.94	64.83
MULTIPLE ORDERING SCHEME	9.74	13.94
CONTRIBUTION & COMMITMENT TO DESIGN-IN	16.46	26.18
PARTICIPATION IN INFORMATION SYSTEMS	8.03	19.65
OTHERS	0.88	1.50

Table 4 : Group-members' Financing Schemes

Systems	Parent-companies (Present %)	Parent-companies (Future %)
GROUP-MEMBER SELF-FINANCING	29.54	44.64
MAJOR PART OF DEBTS GUARANTEED BY PARENT-COMPANY	35.86	21.89
LOAN WITH LOWER INTEREST RATE BY PARENT-COMPANY	21.10	19.31
OTHERS	13.50	14.16

Table 5 : Performance Evaluation Criteria

Criteria	Parent-companies (Present %)	Parent-companies (Future %)
SALES	71.47	39.83
PROFITS	93.45	91.35
SECURITY	15.52	15.85
CASH FLOW	20.71	14.65
CONTRIBUTION TO PARENT-COMPANY	52.90	49.56
STRATEGIC MISSION ATTAINMENT	20.64	47.31
HUMAN RESOUCE ACCEPTANCE & DEVELOPMENT	19.55	18.98
INFORMATION GATHERING & ANALYSIS	1.93	4.63
R & D AND PRODUCT DEVELOPMENT CAPABILITIES	2.97	16.04
OTHERS	0.85	1.79

Japanese corporate groups' actual main performance evaluation standards are sales, contribution to parent-company, and profits, it also clearly shows that, in the future, attainment of strategic mission, and R & D and product development capabilities, will be more emphasized as performance evaluation standards.

This supports my statement that Japanese corporate groups are becoming more strategy-oriented as well as tending to be learning-oriented.

According to Table 6, almost all the firms in the sample (93.37%) believe that, in the future, performance evaluation will be more regular, evaluation standards will be communicated to the group-member concerned (65.76%), and parent-companies will discuss the results of the evaluation (79.79%) and the evaluation scheme itself (57.22%) with group-members.

This situation supports again corporate groups' rationale shift to strategy orientation and learning orientation. In addition, this evaluation scheme may also foster group synergy.

According to Table 7, on page 13, firms in the sample (67.08¥%) believe that the results of performance evaluation are rather used for reporting to the executive committee and agenda rather than for other purposes.

Support & Nurturing. Graph 14, on page 26, shows that 34.34% of parent-companies (against 25.22%) support and recommend their group-members to be listed in the Tokyo exchange market. This means to us that Japanese corporate groups are now offering outsiders (foreign investors and Japanese non-corporate

Table 6: Group-members' Performance Evaluation Scheme

Methods	YES (Present %)	YES (Future %)
REGULAR	76.55	93.37
DONE BY PARENT-COMPANY ONLY	75.46	67.22
DISCLOSED TO GROUP-MEMBERS	26.92	65.76
DISCUSS THE RESULT WITH GROUP-MEMBERS	50.24	79.79
DISCUSS THE SCHEME WITH GROUP-MEMBERS	23.67	57.22

group firms) opportunities to break into their network. In other words, they are actually looking for strategic alliances rather than traditional defensive alliances. Indeed, this supports their emphasis on strategy orientation and their attempt on learning orientation.

In addition, Table 8 reflects the certain amount of management autonomy that parent-companies are confering to group-members. Though, top leadership, expatriation, and transfer of personnel are still decided by parent-companies in the majority, middle management and other employees' recruitment and employment are initiated and decided by or with group-members.

Table 9 tells us that, in the future, parent-companies will gradually continue to get group-members involved (partially or totally) in decisions about personnel recruitment and/or employment to emphasize on group synergy.

Centripetal Force. The essence of corporate group management is the dynamic balance between (see Figure 1, on page 14) :

Table 7 : Purposes of the Performance Evaluation

Purposes	YES (%)	NO (%)
REPORTING TO THE EXECUTIVE COMMITTEE & AGENDA	67.08	32.92
DECISION ON EXECUTIVES' APPOINTMENT	23.75	76.25
ECONOMIC REWARDS (SALARY & BONUS)	38.75	61.25
HONORABLE OFFICIAL COMMENDATION	21.25	78.75
GROUP-MEMBER DEGREE OF AUTONOMY	7.95	92.05
EVALUATION OF THE DIVISION CHIEF	9.17	90.83

Table 8 : Decision on Personnel by Group-member's Organization Level (Presently)

Level	Parent-companies (%)	Group-members (%)	Together (%)
PRESIDENT	93.83	0.44	5.73
OTHER DIRECTORS	80.61	7.49	11.89
MIDDLE MANAGEMENT	18.94	62.55	18.50
STAFF	9.69	80.18	10.13
FRESHMAN RECRUITMENT & EMPLOYMENT	7.02	78.95	14.04
MID-CAREER RECRUITMENT	4.82	82.90	12.28
EXPATRIATE & PERSONNEL TRANSFER	62.94	7.14	29.91

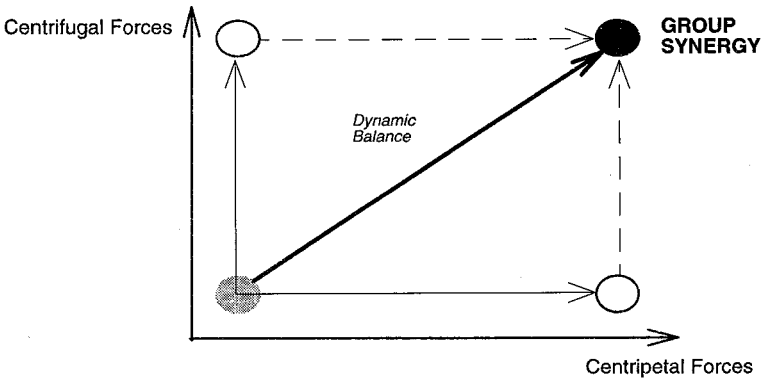
- *The centrifugal force*, which brings the corporate group, for example, to move from within-group trade centered to external trade centered; from internal resource centered to effective utilization of external resources; to develop overseas markets progressively; to gather informations about the markets and customers; to move toward multiple ordering scheme; thus, to move toward learning orientation.
- *The centripetal force*, which brings the corporate group, for example, to move from 360° approach to more focused areas of products and businesses; to move toward group integrative power and members' dynamic collaboration; to develop group business strategy and the corporate group's total power; thus, to move toward strategy orientation.

According to Table 10, most corporate groups will develop and strengthen their centripetal forces in order to use group-members' management and financial autonomy, corporate group's competitive power, group's core busi-

Table 9 : Decision on Personnel by Group-members' Organization Level (in Future)

Level	Parent-companies (%)	Group-members (%)	Together (%)
PRESIDENT	92.77	0.60	6.63
OTHER DIRECTORS	69.28	7.83	22.89
MIDDLE MANAGEMENT	13.85	68.67	17.47
STAFF	7.19	80.24	12.57
FRESHMAN RECRUITMENT & EMPLOYMENT	4.19	78.44	17.37
MID-CAREER RECRUITMENT	4.22	80.73	15.06
EXPATRIATE & PERSONNEL TRANSFER	48.71	9.15	42.68

ness maturity, and institutional changes (e.g., due to deregulation) as powerful trumps in the new era of competition.



Figture 1 : Centrifugal force, centripetal force, & group synergy

Table 10 : Management Power Effectiveness in the Company

Management Power	Strong (Present %)	Strong (Future %)
MANAGEMENT PHILOSOPHY	46.36	74.66
MANAGEMENT MISSION & BUSINESS PLAN	47.84	82.87
TOP LEADERSHIP	58.37	71.43
PERFORMANCE EVALUATION & REWARDS	30.47	68.94
CAPITAL INVESTMENT & LOAN	66.24	57.87
TECHNICAL ASSISTANCE & R&D POTENTIAL	36.79	59.26
SALES CHANNELS	35.94	50.23
HUMAN RESOURCE	40.95	70.64
ORGANIZATIONAL CULTURE	25.87	38.14
INFORMATION SHARING	23.94	67.75
INFLUENCE TO THE GOVERNMENT & INDUSTRIAL SOCIETY	18.54	41.12

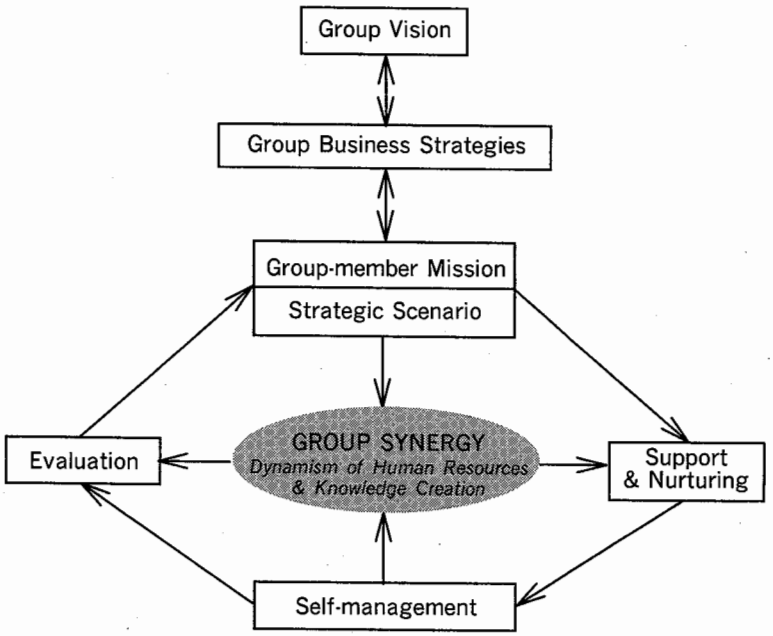
4. Conceptual Framework of Corporate Group Re-Management

First of all, GROUP VISION is the starting point and, at the same time, the goal of a corporate group management. Moreover, it helps in finding out the business strategies of the whole group.

An efficient planning for designing the future of corporate groups is needed. However, it should not be merely urged by the parent-companies. That is, it should not be one-sided. Each group-member's dreams and expectations should be directed toward the realization of a group vision.

Next, GROUP BUSINESS STRATEGIES are indispensable in realizing the group vision. In many cases, the whole group needs to spread throughout more than one business area to make such vision happened.

For example, since its foundation, the Daiei Group, which has been engaged in the GMS business, is advancing in the department store business, the speciality store business, the CVS business, the eating-out business, the service relation business, and so on, to realize its group vision— " *Good products and services at lower prices* ". It is noteworthy that each group-member's strategy alone is insufficient to realize such a group vision. Business strategies that encompass overlapping business areas are also of vital importance.



Figture 2: Framework of Corporate Group Re-Management

The vitality of a corporate group and the achievement of the dynamic balance between the centripetal forces and the centrifugal forces can be reached through the creation of the above mentioned group vision and group business

strategies.

Each group-member can clearly decide his/her mission on the basis of a group vision and group business strategies. Here also, each group-member's mission should not be one-sided. It should rather be designed to foster information sharing and group-member dialog. Indeed, each group-member's consent has a decisive influence on the realization of the group vision and the group business strategies.

In addition, each group-member should settle into his/her own strategies and execute his/her own routine in order to achieve his/her own mission. The parent -company's roles should therefore be TO EVALUATE whether the group-member's mission is accurately done or not, and, if necessary, to SUPPORT AND NURTURE group-members' business and human resources.

At the same time, the creation of GROUP SYNERGY is of vital importance. Group synergy is the central characteristic of corporate group management.

It is beyond the integration and coordination of each group-member's resources and energy.

Personnel transfer and flows of information are the integrative power to create group synergy. So, in future, group synergy will require and bring corporate groups to move:

- From "group-member capabilities" to "corporate group capabilities;"
- From "vertical-transfer" to "horizontal-transfer."

The wide effective use of corporate group capabilities and the generous flow of information across each group-member's borders will therefore be the basis of the group synergy.

In brief, today's reality dictates that 21st century corporate group management should not be based on (1) parent-company dependence and on (2) the one -sided and upward/downward regulation (and relation). The new era rather suggests a management based upon the strategic cooperation of independent group-members which promotes the realization of the group vision.

5. Conclusion

The 21st century has been billed as the Asian century, with the rapidly growing "three Chinas" joined by north, southeast and south Asia as centers of world economic growth.

The prediction is probably true, given the phenomenal rate of industrialization and economic expansion enjoyed by various Asian countries. But, if this is Asia's future, what does it mean for Japan? Firstly, Japanese business leaders and individuals should not persist in failing to realize that they are part of Asia. They should seek, first and foremost, to raise a new awareness for the new era, and then, act toward the *global* community.

Throughout the paper, I have shown with some empirical evidences that Japanese corporate groups are changing. They are aware of the new era of competition and globalization, that is why they are planning to act toward this global community through strategic learning and group synergy. It is, however, naive to say that this will be achieved within a short length of time and they will win the 21st century without *re-managing* their corporate groups!

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Notes

1) Among the six major groups, three have origins in prewar industrial combines. These are Mitsubishi, Mitsui, and Sumitomo.
2) Many of these companies are members of the horizontal keiretsu. E.g., Toyota and Toshiba are members of the Mitsui group, Hitachi and Nissan are members of the Fuyo group…
3) There are three types of legal cartels in Japan: (1) government export cartels (e.g., the voluntary export restraints on automobiles are administered through a type of cartel); (2) recession cartels that allow companies and industries to adjust to recessionary conditions; and (3) rationalization cartels that allow industries to adopt new technology. The latter two types of cartels must be approved by Japan's Fair Trade Commission.
4) Financial institutions and life insurance companies were not considered in the sample, since the Japanese commercial law prohibit them from investing more than 5% and 10%, respectively, in any given company.

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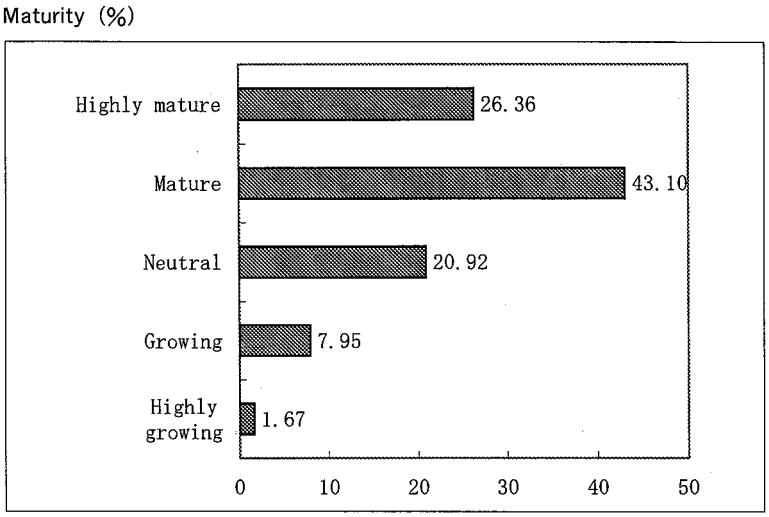
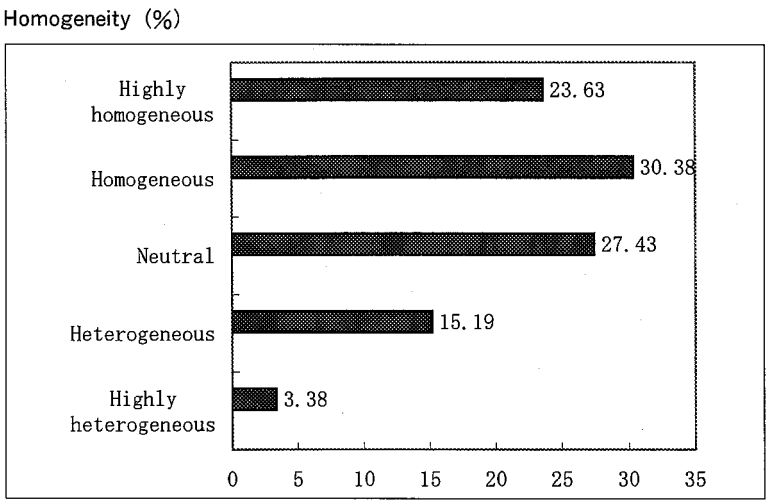
Graph 1 : Life cycle stages of the core businesses

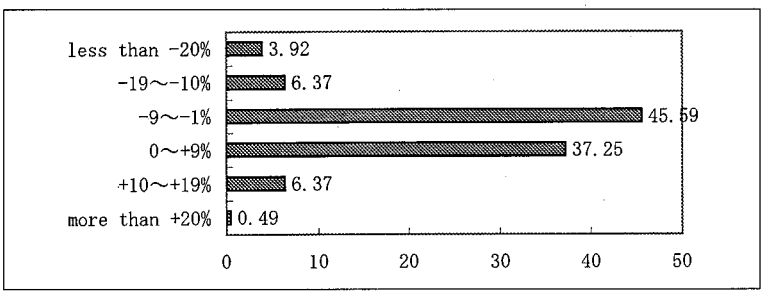


Graph 2 : Core businesses' procuct & market variety

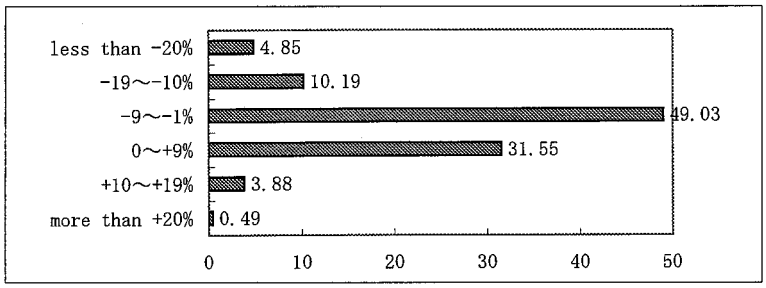


Graph 3, 4, 5 : Corporation groups' consolidated sales

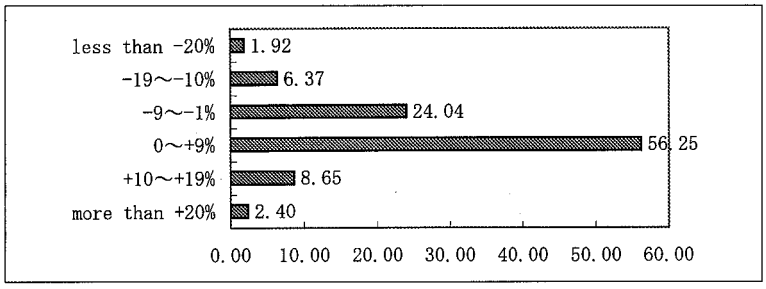
1992 (%)



1993 (%)

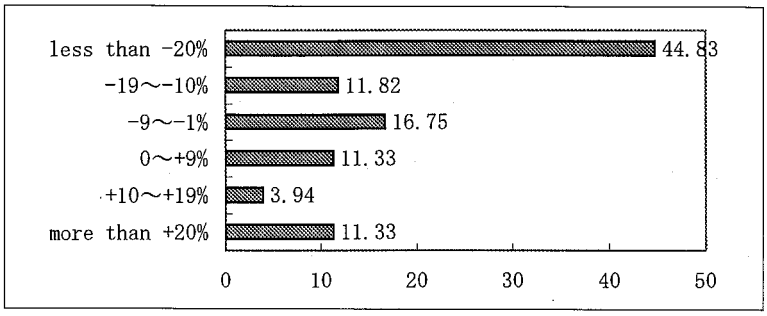


1994 (%)

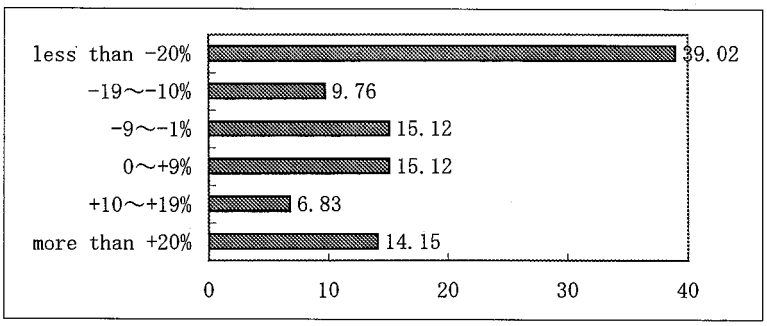


Graph 6, 7, 8 : Corporate groups' consolidated net operating profits

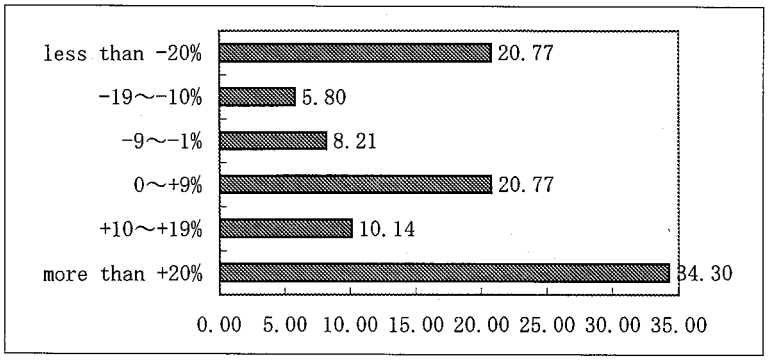
1992 (%)



1993 (%)

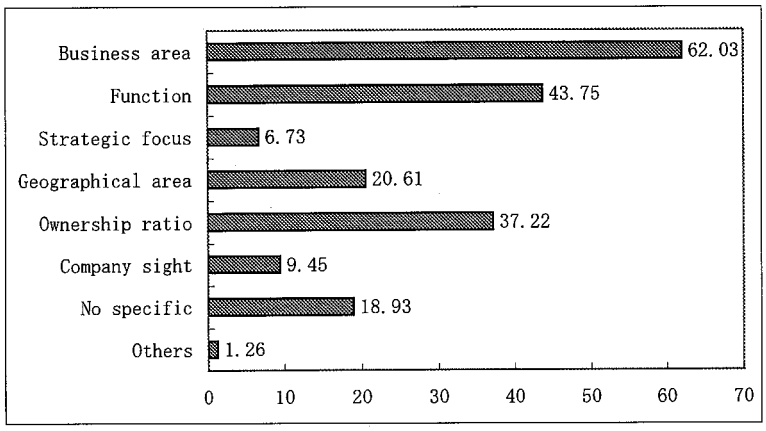


1994 (%)

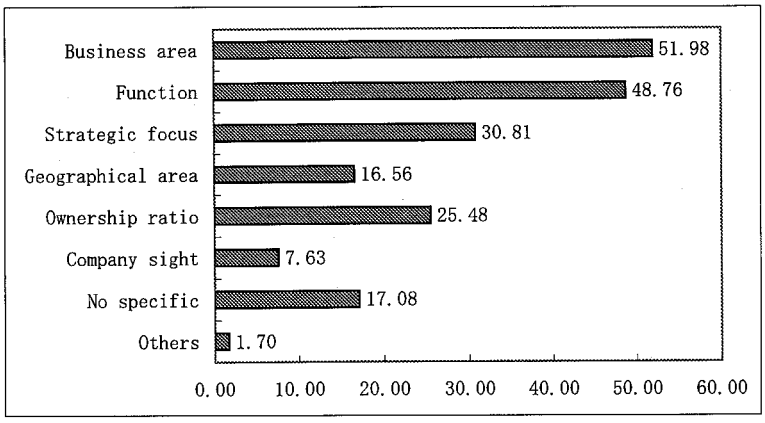


Graph 9, 10: Group-member subgrouping system

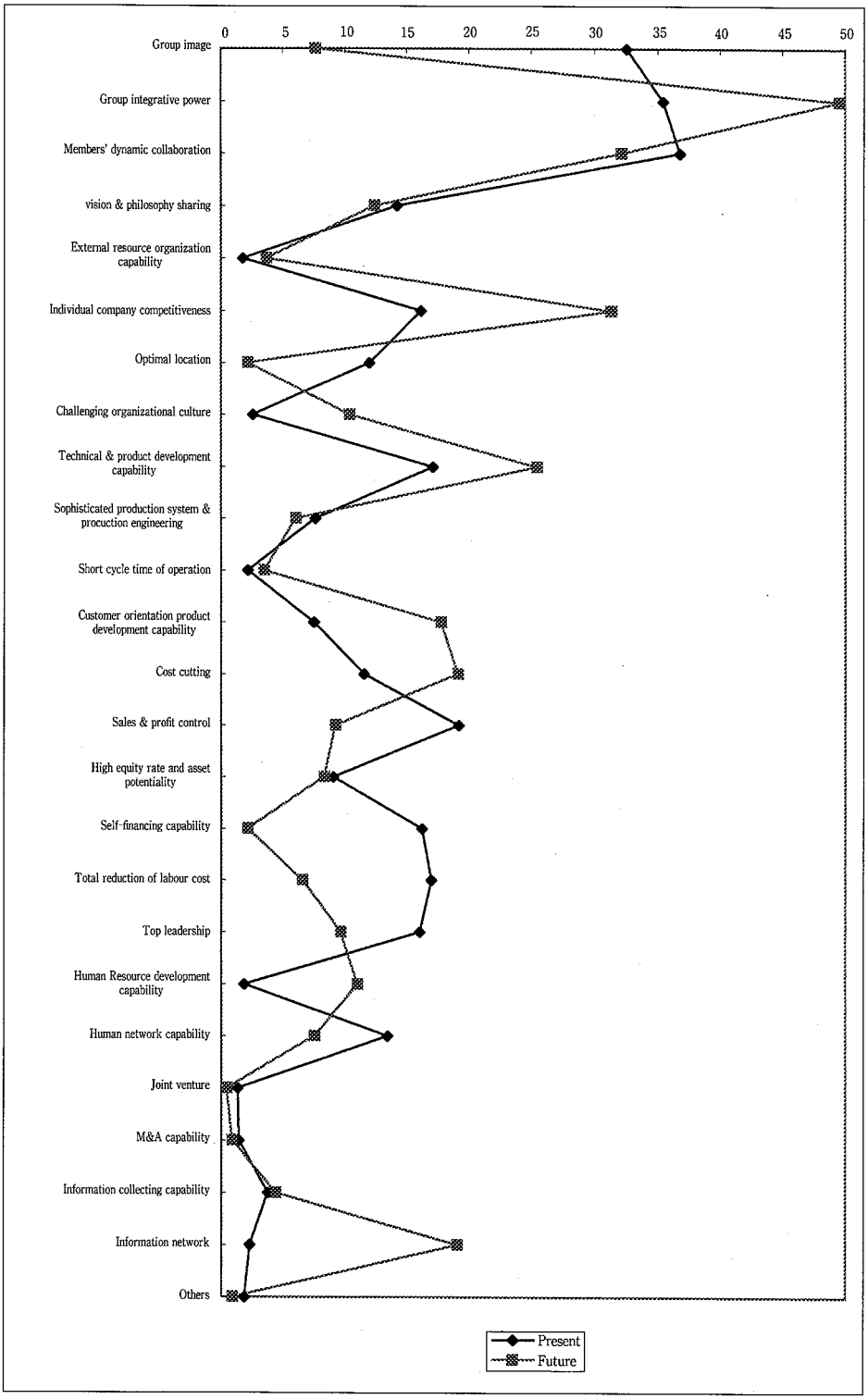
Present (%)



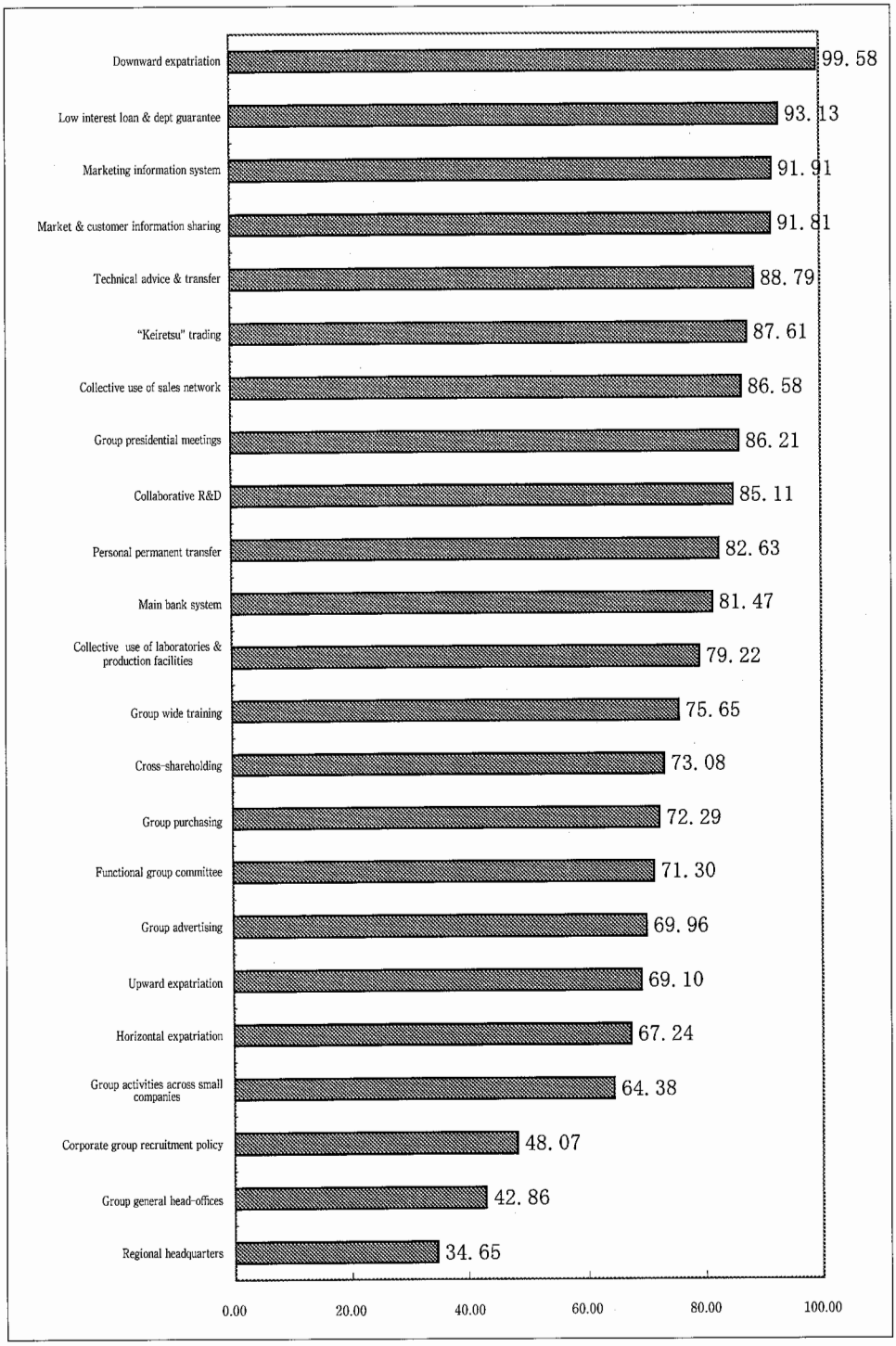
Future (%)



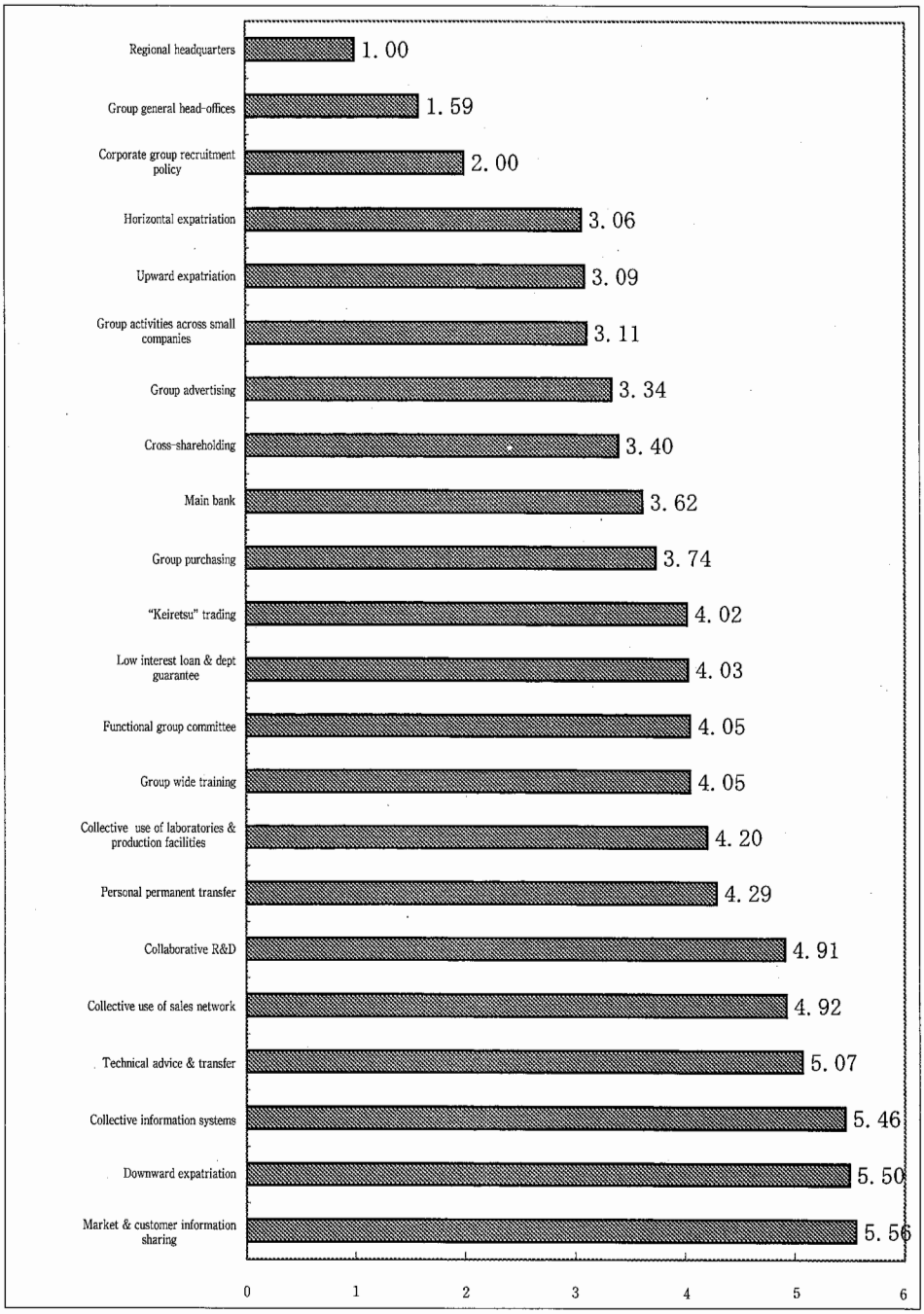
Graph 11 : Corporate groups' core capabilities (%)



Graph 12: Corporate groups' management scheme (%)



Graph 13: Trend of corporate groups' management scheme (%)



Graph 14 : Parent-companies' support for listing their group-members in the security exchange market