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**DOES *SHACHO-KAI* CONTRIBUTE TO THE
COMPETITIVENESS OF *KEIRETSU* NETWORK?:
A COMPARATIVE STUDY WITH THE CASE OF
*CHAEBOL***

ABSTRACT

This study analyzes how the *shacho-kai* (presidents' meeting) have contributed to the competitiveness of the Japanese *keiretsu* network. *shacho-kai* had been touched upon by various literatures as one of the important elements of the *keiretsu*, but there had been no attempt to analyze the *shacho-kai* in detail with comprehensive framework. Thus, this study analyzes the *shacho-kai* of Mitsubishi group by applying the ABCD model, which is a framework to explain competitiveness or the success factors and compare with the case of *sajangdan-boeni* of Samsung, South Korea. Samsung's *sajangdan-boeni* has shown superiority in speed and diligence whereas *shacho-kai* of Mitsubishi was better in synergy creation and goal orientation factors.

Key Words: corporate governance, keiretsu, chaebol, shacho-kai, sajangdan-boeni, ABCD model

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INTRODUCTION

Business groups play important roles in many countries, and Japan and South Korea are not exceptional. Various debates among the role of business groups exist, and one of the representative roles is the economic catch-up device for emerging economies (Lee 2002). Lee (2013) argues that big businesses contribute to per capita GDP growth, GDP stability, and that the contributions toward economic growth are much significant and positive compared to small and medium enterprises (SMEs). Business groups in Japan and Korea were firms that complement beyond market failure such as redistribution effect, providing markets, capital, and technology brand names (Lee 2002).

The *keiretsu*, which is the organization of business groups in Japan, is one of the most well-known Japanese business systems in the world. The *keiretsu* system is deeply embedded in the Japanese economy, and many competitive and legitimate Japanese firms are those belonging to the *keiretsu* system. Traditionally, the Japanese economy has been dominated by the six business groups (McGuire and Dow 2009). Among the six groups, Mitsui, Mitsubishi, and Sumitomo are the three groups which are the descendants of pre-war zaibatsu, while the other three groups - Dai Ichi Kangyo, Fuyo, and Sanyo - developed in the post-war period around major banks. The brand name of Mitsubishi is one of the most prestigious and representative in Japan and it is the largest among the six groups, accounts for about 10% of Japan's total GDP when considering the group as single firm in terms of 2015 (Shigeishi, Suzuki, and Yamaguchi 2016).

The *keiretsu* affiliation and the Japanese style business management had been praised for its excellence during the high economic growth period. Yet after the breakdown of the bubble economy in the early 1990s, Japan has been experiencing long term recession. Among the various approaches analysing the causes of the recession, the *keiretsu* system and the Japanese traditional business system have also been blamed for its inefficiencies. This has led to various legal reformations since 1997 (McGuire and Dow 2009; Nakamura 2011).

As discussed by McGuire and Dow (2009), the *keiretsu* system itself is double-sided, having both advantages and disadvantages. This study approaches these conflicting perspectives by focusing on one of the important elements of the *keiretsu* system - the *shacho-kai*. The *shacho-kai*, literally meaning the president meetings, is one of the core elements of the *keiretsu* networks in Japan. Among the six *keiretsu* groups in Japan, all groups possess their own *shacho-kai* that functions as one of the core elements. This paper goes into the details of how the *shacho-kai* affects the competitiveness of the *keiretsu* group by conducting a comprehensive analysis using the ABCD model. The ABCD model is a comprehensive

framework that could be applied to various factors to explain the success or competitiveness (Moon 2016). *Shacho-kai* is one of the unique organizations of the Japanese *keiretsu*, and it has played an important role for being the core of the *keiretsu* (Lincoln, Gerlach, and Ahmadjian 1996).

This study goes further to derive implications for the *shacho-kai* by conducting a comparative study. Not much counterpart to *shacho-kai* exists in the world, but there is a similar organization in South Korea, called the *sajangdan-boeni* (literally meaning the presidents' meeting in Korean) of Samsung. *Sajangdan-boeni* of Samsung was organized following the *shacho-kai* of Japan with a similar function, but when examined in detail, the two differs in various aspects. By comparing the two similar organizations by using a comprehensive framework, the strengths and weaknesses of each organization can be revealed, and implications for both cases are derived.

This paper is organized as follows. The paper first reviews the literatures regarding the role of business groups in general and details the discussion for business groups in Japan and South Korea. At the same time, the discussion regarding the *shacho-kai* and ABCD model is also introduced. The third section overviews the role of *shacho-kai* in the *keiretsu* affiliation and will be analysed by applying the ABCD model. It will be followed by a comparative analysis with the case of Samsung. Finally, this paper provides implications for both Mitsubishi and Samsung as the result of the application of the ABCD model.

LITERATURE REVIEW

The Japanese *keiretsu* system is a common corporate ownership structure in Japan. *Keiretsu*, literally meaning “economic line-ups” (Pejovic 2011), is an inter-firm network, and both horizontal *keiretsu* and vertical *keiretsu* exists (McGuire and Dow 2009). A *keiretsu* affiliation such as the Mitsubishi Group is a representative case of horizontal *keiretsu*, and this paper focuses on the horizontal *keiretsu* system.

There are various discussions regarding the role of business groups for economic development especially in the emerging countries. Japan is not an emerging country, but since the prewar period, the business groups have been the main players in the Japanese economy for the nation's economic development, and also in the post war period. The system is deeply embedded in the Japanese economic system, and the *keiretsu* groups are still the core players.

In the case of South Korea, the same can be said about its own business groups, *chaebol*. *Chaebol*, which are the business groups in South Korea, dominate the economy in terms of

GDP and exports (Campbell and Keys 2002). This section will briefly summarize existing research regarding the role of business groups for economic development and in emerging markets. Then, literatures regarding *keiretsu* system in Japan and *chaebol* system in South Korea will be reviewed. Details regarding the *shacho-ka*'s role will also be examined as well as the literatures about ABCD model, which is the framework that will be utilized in this research.

Business groups and their role in the economy

Business group is defined as a collection of legally independent firms being connected by economic links, and business groups in developing market are regarded as a more efficient form of business organization (Moon, Lee, and Yin 2015). There are vast literatures on business groups explaining why business groups develop in so many countries, what their roles are in the economies, and how they contribute to the economic development.

The major reason for business groups formation is said to be due to the lack of well-functioning market system (Lee 2002; Moon, Lee, and Yin 2015). Yet, this market failure view of business groups is rather passive, and there have been attempts to explain from new perspectives. Guillén (2000) have approached the business groups in emerging economies from a resource-based perspective. According to this study, business groups are created since political-economic conditions allow them to acquire and maintain the capability of combining foreign and domestic resources in new industries. On the other hand, Lee (2002) has looked into the business groups in emerging countries from economic catch-up perspective. Lee (2002) suggested that the business group are not a result of market failure but serve as a vehicle for economic catch-up.

Quantitative studies such as Lee et al. (2013) examines the role of big businesses with their contribution to economic growth. The empirical results show the positive effect of business groups on economic growth, which are contribution to per capita GDP growth, contribution to GDP stability, and definite and robust effect on economic growth compared to SMEs. Yet, this study also suggests that too much reliance on business group might not be beneficial to the overall, long-term economic growth.

The above studies are useful in explaining the role of the business groups and the reason for their growth, however, they are limited since they are not able to explain how the business groups contribute to economic growth or how they gain competitiveness. Moon, Lee, and Yin (2015) have tackled this limitation by providing a new approach, which is the ABCD model. In this study, the ABCD model is applied to explain how business groups

gain competitiveness by conducting a case study of Tata Group in India. In the next two sections, the detailed literatures of business groups of Japan and South Korea will be reviewed.

***Keiretsu* system and the Japanese economy**

Each country has its own unique corporate governance structure that is influenced by different traditions and cultures (Ho 2005). Corporate governance structure in Japan is also distinctive from many other countries; Japanese firms are widely held without family control, and many of them belonging to *keiretsu* groups. The *keiretsu* is one of the important characteristics of business system in Japan. In the case of horizontal *keiretsu*, there exist six major horizontal groups, which include the legacy of the pre-war *zaibatsu* and groups that developed in the post-war period centering the main corporate banks (Lincoln, Gerlach, and Ahmadjian 1996; McGuire and Dow 2009). According to Okumura (1994), there are six key features to the horizontal *keiretsu* groups. The six features are: 1) cross-shareholdings, 2) intragroup financing by nucleus banks, 3) existence of general trading firms (*sogo shosha*) as trading arms and as organizers of various projects, 4) formation of *shacho-kai*, 5) joint investment by group members, 6) diverse industry organizations within the group including banks, *sogo shosha*, and heavy and chemical industries as the nucleus of the group (Tanaka 2013).

The economic downturn after the breakdown of the bubble economy since the 1990s changed the landscape of the *keiretsu* firms with several mergers which reduced the visible ties among the *keiretsu*. Among the six *keiretsu* groups, three groups from the pre-war *zaibatsu* remain to be the three largest business groups in Japan with their names remaining as strong brand names. As for the other three groups, although not as obvious as the former *zaibatsu* groups, ties among them remains such as through the *shacho-kai* among the firms within their groups.

Various studies have reported the benefit of *keiretsu* affiliation, and research survey by McGuire and Dow (2009) have categorized them into risk reduction and performance leveling, reciprocal monitoring, reduction of information asymmetry, mutual assistance, access to stable financing, and insulation from market pressures. In addition, the mutual shareholdings and the *shacho-kai* helps reduce information asymmetry (McGuire and Dow 2009).

Japanese business system including its corporate governance had been praised for being the source of national performance prior to 1990s. However, after the breakdown of the

bubble economy, this very element has been blamed for as the reason for its recession and has been targeted for structural reformation (Yoshikawa and McGuire 2008). The *keiretsu* system has exhibited “group value maximization” rather than the interest of outsiders or the individual group members. Thus, Japan has been conducting legal reformation regarding corporate governance mechanisms as a part of its structural reformation since the late 1990s, towards a system resembling the US practices or to a more shareholder-oriented system. (Nakamura 2011; Yoshikawa and McGuire 2008). Yet, according to Nakamura (2011), Japan’s reformation of corporate governance practices has been selective, and the adoption of the US practices are partial. This study analyzed the reform of Japanese corporate governance through the selective adaptation approach and has shown that the response between firms belonging to *keiretsu* groups and independent firms were different. The impact of the reform was much more limited among the firms belonging to the *keiretsu* groups since the firms that belong to a *keiretsu* are much more embedded to the traditional Japanese business norms.

As a result of the shifting economy and changing environment, the inefficiencies of the *keiretsu* ties tend to be emphasized rather than the advantages. The key features of the *keiretsu* have in fact been diminishing (McGuire and Dow 2009). The type of decreasing ties are bank debt, cross-holding, buyer-supplier ties, and exchanges of board and personnel as have been pointed out by McGuire and Dow (2009).

Yet, despite the economic inefficiencies and actual diminishing ties, the *keiretsu* still dominates the Japanese economy. This shows the need of recognition of the complexity of *keiretsu* ties and their functions (McGuire and Dow 2009). Therefore, in order to understand the embeddedness of the *keiretsu* affiliation within the Japanese economy, in-depth and comprehensive research of the *keiretsu* network is needed. In line with this discussion, this study aims to analyze the *keiretsu* affiliation from different perspective, which is the *shachokai*.

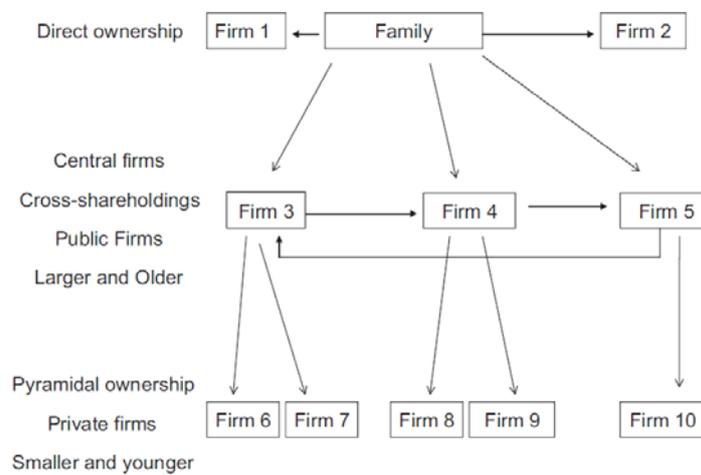
***Chaebol* system and the Korean economy**

The common ownership structure of South Korean firms is family owned structure by the founder’s family (La Porta, Lopez-De-Silanes, and Shleifer 1999). The representative firms which are the largest big business groups that is established as the core of the current business system are the so called *chaebol*, whose Chinese characters being same as the Japanese zaibatsu (Lee 2002). Similar to how *keiretsu* have contributed to the economic

growth of Japan, *chaebol* were the key players during the process of rapid economic development of Korea since the 1960s (Moon 2016).

According to Almeida et al. (2011), the typical structure of Korean *chaebol* is organized in three layers (refer to Figure 1). Several firms are owned directly by the owner family without ownership links to other firms, whereas middle layer firms consists cross-shareholding loops are linked with each other and other firms of the lower layer.

Figure 1. Typical Ownership Structure of a Korean *Chaebol* (1998–2004)



Source: Almeida et al. (2011)

As in the case of *keiretsu* in Japan, there are also contradictory views towards *chaebol*. *Chaebol* dominate the South Korean economy, and it has served as the organizational device for economic development (Lee 2002). However, there are many evidences that discuss the downside of *chaebol*. According to Campbell and Keys (2002), *chaebol* negatively impacted the South Korean economy during the 1990s as *chaebol* are interested in goals other than profit maximization. *Chaebol*'s growth in sales was significantly higher relative to that of other firms, but their performance was lower. Furthermore, top executive turnover rate was unrelated to the performance in the case of *chaebol*. This indicates the breakdown in internal corporate governance. Studies such as Joh (2003) and Baek, Kang, and Park (2004) had also argued on the inefficiencies of *chaebol* structure of corporate governance and profitability.

Despite such criticisms, it is nonetheless true that *chaebol* contributed to the economic growth of Korea (Lee et al. 2013; Moon 2016). Among these papers that highlighted the

success and contributions of *chaebol*, Moon (2016) analyzed the success factors of Korean economy and Korean *chaebol* by utilizing the ABCD model; This will be explained in the later section of this paper.

Discussion on *shacho-kai*

Among the key features of the *keiretsu*, the change in traditional *keiretsu* ties such as diminished bank debt, reduced cross-holding, and diminished exchanges of personnel has been pointed out (McGuire and Dow 2009). On the other hand, although *shacho-kai* is one of the main features of the *keiretsu*, not much research has focused on its function and its role in detail especially since the 1990s when Japan started to experience long-term economic recession. This section will review existing research that has touched upon the role of *shacho-kai* within *keiretsu*, particularly by emphasizing the application to the upper echelon's theory.

Shacho-kai's role among the *keiretsu* have been touched upon various literatures. *Shacho-kai* is both formal and informal core network of the *keiretsu* affiliation. Lincoln, Gerlach, and Ahmadjian (1996) refers to *shacho-kai* as being the third governance structure, and that they represent the nerve center and inner circle of the *keiretsu* network. Todeva (2005) emphasized *shacho-kai* as providing an efficient platform for managing intra- and inter-corporate relationships, which is a major contributor to wealth creation within the *keiretsu*. The *shacho-kai* is the core of *keiretsu*, not only because the presidents of the *shacho-kai* firms meet regularly, but also because they constitute the core in the ownership structure of the network; the *shacho-kai* is the core of cross-shareholding (Kensy 2001; Kikuchi 2017). Todeva (2005) described *shacho-kai* as follows:

"This association of the presidents holds monthly meetings to discuss group strategy. It supports group solidarity, mediates intra-group activities, and settles intra-group disagreements. *Keiretsu* members can thus develop plans based on activities that other *keiretsu* members are pursuing. Although it appears that *shacho-kai* facilitates insider trading and may be called ineffective allocation of resources, it does provide an efficient platform for managing intra and inter-corporate relationships, which is the major contributor to wealth creation within the corporate group." (Todeva 2005: pp 101)

Pejovic (2011) also pointed out on *shacho-kai* as being an important venue for keeping ties among the *keiretsu*. The meetings among the presidents are regularly held to exchange information and strengthen their relationships, and at the same time, it functions as a quasi-headquarter for the *keiretsu* affiliation.

Many researchers have discussed the role and impact of *shacho-kai*, yet none of the studies have focused on the details of the *shacho-kai* and how *shacho-kai* have contributed to the efficiency of the *keiretsu* system. According to the upper echelon theory (Hambrick and Mason 1984; Hambrick 2007), the characteristics of top management team (TMT) yield strong explanations for the organizational outcomes (Carpenter, Geletkanycz, and Sanders 2004; Hambrick 2007). TMT is usually discussed as the organ within the organization, whereas *shacho-kai* is an inter-firm organization. Yet, the overall discussion by the earlier studies regarding *shacho-kai* provides evidence that *shacho-kai* ties the firms belonging to the same group and behaves as if the *keiretsu* group is a single firm. Thus, the activities of *shacho-kai* are important elements for the performance or competitiveness of the *keiretsu*, yielding to the necessity for a detailed and comprehensive study of *shacho-kai*.

The application of the ABCD model

As *keiretsu* system is the core of the Japanese economy, research from various perspectives has been conducted regarding the economic rationality and efficiency of the system. Among earlier research, many studies have touched upon the importance of *shacho-kai*'s role within the *keiretsu* system, yet they lack in comprehensively analyzing *shacho-kai* itself. To overcome the limitation, this study applies the ABCD model (Moon 2016)¹ which is a framework that is able to explain the competitiveness of certain factor comprehensively by analyzing it with four factors and eight subfactors. As mentioned above, there are no studies about how the *shacho-kai* have contributed to the efficiency of *keiretsu* system; Most of the earlier studies have only indicated what they are. The ABCD model enables us to analyze through the *how* approach (Moon, Lee, and Yin 2015).

The four factors of the ABCD models are agility, benchmarking, convergence, and dedication, and each of the factor is further divided into two subfactors. Agility is the factor emphasizing the importance of speed and precision. Speed is undoubtedly important for success, but at the same time, precision should be accompanied. Speed provides much benefit, but speed without precision may pose risks. The second factor benchmarking is composed of learning and best practice. For an efficient success, learning from others rather than developing internally may be faster and cheaper in many aspects. However, in learning, the best of the existing worlds should be learned. The third factor, convergence consists of

¹ The explanation for ABCD Model is a summary of chapter 4 of Moon (2016). For more details of the ABCD model, please refer to the book.

mixing and synergy creation; that is to exploit and combine existing resources in synergistic way. The last factor is dedication, a combination of diligence and goal orientation.

The ABCD model was originally designed to explain the success factor of Korea's development comprehensively by considering the above factors: the ABCDs. This model can be applied not only to cases such as Korea that developed from the underdeveloped stage by rapidly gaining success, but the model also gives implications for advanced countries as well. This model is applicable for both latecomers and leaders, and to go further, the model is generalized for firm level analysis as well. Moon (2016) conducted case studies by applying the ABCD model to analyze Xiaomi, which is a catch-up firm from a developing economy and Apple, which is a leading firm from developed economy.

As introduced in this literature review, the *keiretsu* system is a unique corporate governance system which had been a source of competitive advantage for Japan during the years of economic development, and *shacho-kai* had been one of the key elements of the *keiretsu* system. Many studies have outlined both the benefits and the costs of the *keiretsu* system from various perspectives, yet the research regarding *how* the *shacho-kai*, as a key element, had contributed to the *keiretsu* system is insufficiently analyzed and lacks comprehensive analysis. Also, at the same time, as the Japanese economy had been experiencing low performance since the 1990s, the disadvantages of the *keiretsu* system have been emphasized, it is unclear whether the *shacho-kai* remains to be effective. Thus, by utilizing the ABCD model, this study analyzes the effectiveness of *shacho-kai* in today's economic environment.

SHACHO-KAI AND KEIRETSU NETWORK: A CASE STUDY OF MITSUBISHI GROUP

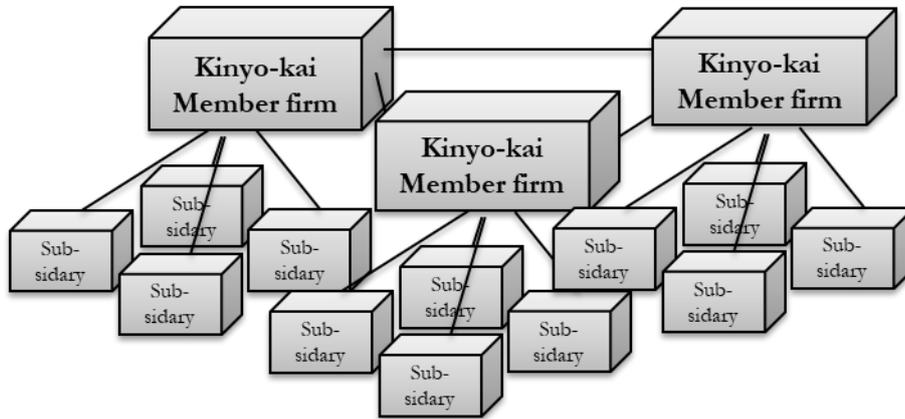
This section analyzes how the *shacho-kai* functioned among the *keiretsu* system as to enhance the efficiency of the *keiretsu* group by conducting a case study of Mitsubishi Group and its *shacho-kai*. Not only is Mitsubishi the largest firm in Japan, Mitsubishi is one of the oldest and the prototype of the Japanese *keiretsu* (Kensy 2001). The *shacho-kai* of Mitsubishi is called the *kinryo-kai*, literally meaning Friday's meeting, due to their monthly meeting on every second Fridays of each month. *Kinryo-kai* was founded around 1954, and is the second oldest among the *shacho-kai* of the six *keiretsu* groups (Tanaka 2013). Among the six existing *shacho-kai*, the *kinryo-kai* is referred to as the most active and functional one (Tanaka 2017; Kikuchi 2017).

Mitsubishi Group is the descendent of Mitsubishi *zaibatsu* which was dissolved after the World War II by the General Headquarters (GHQ) of the allied powers. *Zaibatsu* was a family controlled business groups that had developed into pyramidal groups in the late 19th century through the early 20th century (Nakamura 2015). Other examples of *zaibatsu* which still remain to be visible are Sumitomo Group and Mitsui Group. Mitsubishi *zaibatsu* was established by Yataro Iwasaki who started the firm as a shipping company with three ships. Mitsubishi had diversified under the second president, Yanosuke Iwasaki, who was the younger brother of the founder. The firm had developed into a massive *zaibatsu* under the third and fourth presidents, Hisaya Iwasaki (Son of Yataro) and Koyata Iwasaki (son of Yanosuke) and became one of the leading symbols of Japanese industrial power (Nakamura 2002). Among the three top business groups in Japan, the history of Mitsubishi is the shortest (founded in 1870), whereas Sumitomo had been established in 1590 and Mitsui in 1673.

Total sales of Mitsubishi Group add up to US\$ 527.3 billion and profits with US\$ 23.4 billion, and there are approximately 762 thousand employees as of 2015. Sales volume and profits are larger than those of Walmart of the US (Shigeishi, Suzuki, and Yamaguchi 2016). The number of firms belonging to the Mitsubishi Group are said to be about 600 (refer to mitsubishi.com). Many independent firms belonging to the Mitsubishi Group are also ranked as the most competitive firms among the industries. Mitsubishi Group also has the largest number of subsidiaries worldwide among the Japanese *keiretsu*, with a total number of 757 firms.

The history of *kinyo-kai*

Kinyo-kai was formed around 1954, after the dismantling of *zaibatsu* by the GHQ; during this period, firms have lost their core (i.e., the firm's headquarter). In order to manage the brand names that were inherited from the former Mitsubishi *zaibatsu*, to organize cross share-holdings, and to protect themselves from hostile takeover, firms have organized *kinyo-kai* as the core of *keiretsu* (Tanaka 2013; Kikuchi 2017). The cross shareholding of the Mitsubishi Group is structured around the *kinyo-kai* firms in the center, as described in Figure 2. The *kinyo-kai* firms are the nucleus of the cross share-holding structure, and at the same time, they have informal and indirect mechanism (Kensy 2001). The objectives of this consortium include new projects, foreign investment, major lending, and support measures for companies in crisis, in addition to its role as a general information forum (Kensy 2001).

Figure 2. The Structure of Mitsubishi Group and *Kinyo-kai*

Source: Tanaka (2017)

As of June 2018, 27 firms² are the member of the *kinyo-kai*. The official definition of the *kinyo-kai* according to Mitsubishi is “just a social gathering and not much to explain” (Shigeishi, Suzuki, and Yamaguchi 2016), however, many evidences show that among the six *keiretsu* groups, especially in the case of Mitsubishi, *kinyo-kai* has the characteristics of the quasi-headquarter (Kikuchi 2017). It is highly institutionalized compared to other *shacho-kai* with clear authority given to certain personnel of the member firm and with unofficial hierarchies among the member firms. Of the *Kinyo-kai* members, the top nine firms organize *sewanin-kai*, which can be translated as the *managers’ meeting* or *agents’ meeting*. The *sewanin-kai* is referred to as the “actual decision making organization of Mitsubishi Group.” The *sewanin-kai* gathers in case of crisis or when in need of important decision making before the *kinyo-kai* meetings. The decisions that are made in the *sewanin-kai* is informed to the *kinyo-kai* members, and the decision is rarely overturned (Shigeishi, Suzuki, and Yamaguchi 2016).

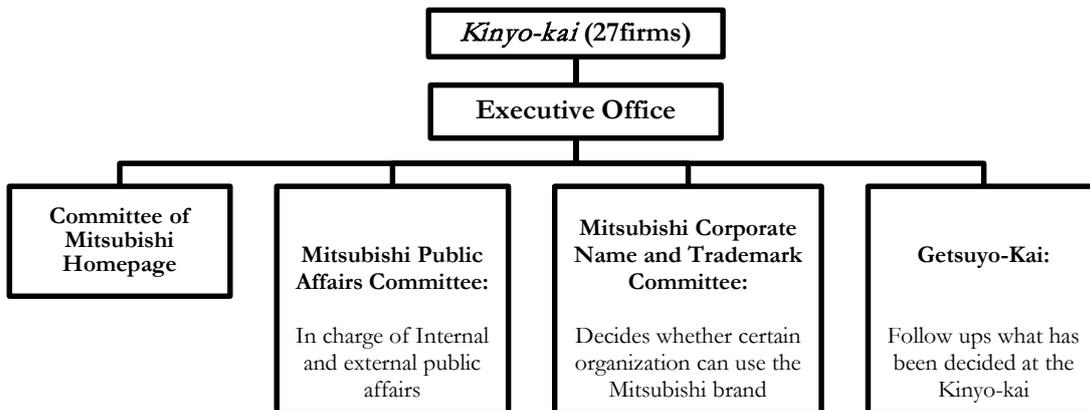
In the case of *kinyo-kai*, executive office exists, which Mitsui or Sumitomo do not possess. Figure 3 shows the organizations structured below the *kinyo-kai* and its executive

² The 27 firms are Mitsubishi Heavy Industries, Mitsubishi Kakoki Kaisha, Mitsubishi Logistics, Mitsubishi Gas Chemical Company, The Bank of Tokyo-Mitsubishi UFJ, Nippon Yusen Kabushiki Kaisha, Mitsubishi UFJ Trust and Banking Corporation, Tokio Marine & Nichido Fire Insurance, Mitsubishi Materials Corporation, Meiji Yasuda Life Insurance Company, Mitsubishi Estate Company, Kirin Holdings Company, Mitsubishi Electric Corporation, Nikon Corporation, Mitsubishi Corporation, Mitsubishi Motors Corporation, JXTG Holdings, Mitsubishi Fuso Truck and Bus Corporation, Mitsubishi Chemical Corporation, Mitsubishi Aluminum, AGC, P.S. Mitsubishi Construction, Mitsubishi Chemical Holdings Corporation, Mitsubishi Research Institute, Mitsubishi Steel, Mitsubishi UFJ Securities Holdings, Mitsubishi Paper Mills

office. There are around ten official staffs in the executive office that organize the meetings in addition to other events. According to the official homepage of Mitsubishi Group, *kinyo-kai* is a social gathering among the presidents of the 27 member firms and discusses about common Corporate Social Responsibility (CSR) issues, approval of firms newly using the brand name of Mitsubishi, and special expert lectures on various topics such as economics, politics, art, science, and technology. The meetings are organized by the executive office, and the meetings are conducted at the meeting room of the *kinyo-kai* office.

The *getsuyo-kai* is the gathering among general managers to follow up on what has been decided in the *kinyo-kai*. *Getsuyo-kai*, meaning the “Monday meeting,” meets up every third Monday of each month. As *kinyo-kai* is conducted every second Friday of the month, the *getsuyo-kai* meeting is conducted right after the *kinyo-kai* meeting. Mitsubishi Public Affairs Committee consists of 38 firms of Mitsubishi Group including firms of *kinyo-kai*. The committee is in charge of the public affairs including the international community and also CSR activities as well. The Mitsubishi Corporate Name and Trademark Committee is in charge of persisting the Mitsubishi brand, and decides whether certain firms or organizations are qualified to use the Mitsubishi name. *Kinyo-kai* is the top institution within the organization that persist the Mitsubishi brand name.

Figure 3. Structure of *Kinyo-kai* and Its Subordinate Organizations



Source: Shigeishi, Suzuki, and Yamaguchi 2016

The implicit hierarchy among the Mitsubishi Group is relative to how the *kinyo-kai* is institutionalized. Hierarchy among the group can be described by five tiers. The first tier is composed of three firms, which are the most traditional and legitimate firms within the group, and those are Mitsubishi Corporation, Mitsubishi Heavy Industries, Mitsubishi UFJ Bank. These three firms are the core of the group and at the same time the leader firms. Firms belonging to the second tier are ten firms which are the main firms among the group. The nine *sewanin-kai* members are consisted of the three first-tier, core firms and the rest of the six firms are chosen from the ten second-tier firms. The third-tier firms are the remaining 14 firms of the *kinyo-kai*. The third-tier firms attend the *kinyo-kai*, but they have no choice but to follow what has been decided in the *sewanin-kai*. The fourth-tier group consists of member firms of Mitsubishi Public Affairs Committee, who are rather weaker firms that cannot be a member of the *kinyo-kai*. The fifth-tier firms are many of the other affiliates and related firms.

Secondly, the next incident shows a situation where the *kinyo-kai* acts as the important decision making institution. As mentioned above, usually *kinyo-kai* is just a social gathering among the presidents, but during crisis, *kinyo-kai* discusses the issue and decides on the actions to overcome the crisis. When discussing the issue and the action plan, the behavior taken to overcome the crisis is consistent with the mission of the *kinyo-kai* which is to persist the brand of Mitsubishi.

The behavior that *kinyo-kai* showed at the time of Mitsubishi Motors Corporation crisis in 2000 was an event that proved *kinyo-kai* is more than a social gathering. In August 2000, the recall cover up of Mitsubishi Motors was revealed to the public. Mitsubishi Motors admitted that the firm had systematically concealed customer complaints about defective automobiles since 1977, and the incidents had pressured Mitsubishi Motors to be in great challenge. Mitsubishi Motors had aligned with Daimler Chrysler for remedy and reconstruction. However, another recall cover-up had occurred which led to the cancellation of the alliance. This chain of events had led Mitsubishi Motors to be in a serious management crisis, and criticism from the public was severe.

After the announcement of cancellation of alliance with Chrysler, there was no choice but to give out remedy and reconstruction within the Mitsubishi Group to aid Mitsubishi Motors. At the *kinyo-kai* conducted in April 2004, President Miki of Tokyo Mitsubishi Bank back then had announced that they “wish to overcome the situation with cooperation among the whole group,” and that “this situation is not just a problem about Mitsubishi

Motors, but rather a problem for the Mitsubishi Brand itself. To keep up the trustworthiness of Mitsubishi, all of the firms must keep in mind of this fact.”

According to a senior of Mitsubishi Group, “At that time *kinyo-kai* was no longer a social gathering that they had conducted in the regular times but rather a meeting for discussing the reconstruction of Mitsubishi Motors.” Among these meetings, the initiatives were taken by the three firms - Mitsubishi Heavy Industries, Mitsubishi Corporation and the Bank of Tokyo-Mitsubishi (current The Bank of Tokyo–Mitsubishi UFJ) - to request support from the *kinyo-kai* members. As of June 2004, 11 firms out of 29 firm members of *kinyo-kai* (then) had decided to aid Mitsubishi Motors. Figure 4 shows the timeline for Mitsubishi Motors reconstruction actions by the *kinyo-kai*. As a result of the series of these actions, crisis of the member firm of *kinyo-kai* were relieved by the collective effort of the *kinyo-kai* and Mitsubishi Group as a whole.

As can be seen from the above discussion, the *kinyo-kai* as the core element of the Mitsubishi Group had functioned as the nucleus of the network of the group. The effectiveness of *kinyo-kai* can be comprehensively analyzed by applying the ABCD model. Table 1 shows the summary of the model’s implications

Table 1. ABCD Analysis of Mitsubishi’s *kinyo-kai*

| Factors | Subfactors | Mitsubishi <i>kinyo-kai</i> analysis |
|---------------------|------------------|--|
| Agility | Speed | Through the highly hierarchical and institutionalized structure, decision making can be done |
| | Precision | With the follow-up meetings, the issues of the <i>kinyo-kai</i> is further discussed |
| Benchmarking | Learning | Learning through lectures, and learning through other firms |
| | Best practice | Able to learn best practice from the lecturer and each other |
| Convergence | Mixing | Gatherings of firms from various industries (diversified) |
| | Synergy-creation | Supporting eachother in the case of crisis |
| Dedication | Diligence | Monthly meetings among the presidents, and other follow-up meetings |
| | Goal-orientation | Mission is to persist the Mitsubishi brand |

Source: Reorganized and added by author based on Kensy (2001), Pejovic (2001), Todeva (2005), Shigeishi, Suzuki, and Yamaguchi (2016), and Tanaka (2017)

Agility, which is consisted by the subfactors of speed and precision, is performed by *kinyo-kai* as followed. Speed can be realized by the highly institutionalized and hierarchical structure. When in need of discussions, meetings can be organized through the executive office. For decision making, since authority is given to certain member firms, it can be made

within the authorized group speedily and be informed to the group members. Also, the precision can be demonstrated by the follow-up meetings such as the *getsuyo-kai*. *Getsuyo-kai* as a subordinate organization further discusses what has been decided in the *kinyo-kai* meetings. Through these institutionalized and hierarchical organizations, issues that have been decided can be practiced precisely.

Secondly, benchmarking is practiced as follows. Another important objective of the *kinyo-kai* is attending lectures. Member firms can learn through the lectures conveyed by the expert of various fields. At the same time, the member firms of the *kinyo-kai* being the best firms in each of the industries in Japan, they can learn not just from the lectures, but they can also learn from each other. As the lecturers are the experts, and the member firms are top companies in their respective industries, they can learn the best practices from the lecturers and from each other.

Also, the *kinyo-kai* meetings may also lead to convergence. The convergence factor consists of mixing and synergy-creation. Mixing and synergy-creation are the advantages of the *keiretsu* network itself, but they can benefit from further synergy by the *kinyo-kai* meetings. Since *kinyo-kai* members belong to various and diversified industries, the gathering itself fulfills the mixing factor, and synergy-creation is demonstrated through risk reduction, performance leveling function of *keiretsu* network, and mutual assistance in times of crisis.

The *kinyo-kai* meetings also highly contribute to the dedication factor. More specifically, the *kinyo-kai* has its own executive office where staffs are located to solely dedicate to the *kinyo-kai* meeting and for the Mitsubishi Group network. At the same time, members meet monthly on the second Friday of the month, and it is followed by the *getsuyo-kai* meeting. These resemble how the system fits into demonstrates the first subfactor of dedication - diligence. For the last subfactor, goal orientation, the objective of the *kinyo-kai* itself symbolizes goal-orientation. The purpose of the *kinyo-kai* has been already mentioned, and according to one of the former executives of *kinyo-kai*, the most important mission is to protect and persist the brand value of Mitsubishi (Shigeishi, Suzuki, and Yamaguchi 2016). The top ten member firms of the *kinyo-kai* are also firms with strong Mitsubishi identity (Tanaka 2017). This shows a clear dedication of *kinyo-kai* towards persisting their identity.

As I have analyzed the effectiveness of *kinyo-kai* as the core element of the *keiretsu* network, the effectiveness of *kinyo-kai* is clear from the application of ABCD model. *Kinyo-kai* has contributed to the competitiveness of the Mitsubishi Group acting as the quasi-headquarter and the center of the network. Yet as the *kinyo-kai* has had a persisting system

and institution for a long time, even after Japan have experienced long-term recession, there is room for improvement. Thus, in the next section, by conducting a comparative analysis with a similar organization in Samsung of South Korea, the strengths and weaknesses of each organizations and future implications for both organizations will be analyzed through the ABCD model.

***SHACHO-KAI* IN OTHER COUNTRIES: A COMPARATIVE ANALYSIS WITH SOUTH KOREA**

There also exists organization that resembles the *shacho-kai* in Korea as well, called the *sajangdan-boeni*, literally meaning "meeting among the presidents." It is not something that all *chaebol* has. In contrast to how *shacho-kai* is the key feature of a *keiretsu* in Japan, only Samsung Group and Lotte Group organize their own *sajangdan-boeni*. In the case of Lotte Group, the meetings are conducted twice a year and each subsidiaries report their business results. On the other hand, the *sajangdan-boeni* of Samsung Group resembles that of the Japanese *shacho-kai* and especially the *kinryo-kai*. Samsung adopts the name of *sooyo-sajangdan-boeni* (meetings among presidents on Wednesday). The meeting is a unique culture for Samsung. Other *chaebol* do not organize such meetings.

The *sooyo-sajangdan-boeni* was originally led by the founder Lee Byung-chul, and the secretary office back then. Samsung organized a secretary office in 1959 imitating the Japanese *zaibatsu* structure to manage its subsidiaries effectively (H. Lee 2016). Samsung's secretary office had imitated Mitsui *gomei kaisha* (translated to Mitsui General Partnership Company), which used to be the headquarter of Mitsui *zaibatsu* (H. Lee 2016). The former secretary office had grown into the current "Future Strategy Office." According to insiders and analysts, Future Strategy Office, comprising some 200 elite staff hand-picked from affiliates of Samsung, is the vehicle through which the founding Lee family makes key decisions such as restructuring and investments for new businesses (Lee 2017). The *sooyo-sajangdan-boeni* is organized by the Future Strategy Office, has the purpose for study meeting and to discuss about the future of Samsung. In 2008, Samsung has organized "investment coordination committee" and "brand management committee" under the *sooyo-sajangdan-boeni* and has committed on important decision-making for the group (Kim 2017). Especially after 2010, lectures conveyed by various experts have become the core of the meetings. The *sooyo-sajangdan-boeni* had not been suspended even when chairman Lee Kun-hee was hospitalized. The *sooyo-sajangdan-boeni* had a symbolic meaning: by meeting regularly to discuss about business and to strengthen their fellowship (Kim 2017).

As reviewed above, Samsung's *sooyo-sajangdan-boeni* has similar characteristics with that of *kinyo-kai*. In the case of Samsung's *sooyo-sajangdan-boeni*, the meetings are conducted weekly on Wednesdays. The presidents meet every single week, except for several weeks during the vacation time. In 2016, the meetings were conducted 44 times from 6th of January to 21st of December (Y. Lee 2016). The lectures are conveyed by prominent scholars, and the topics include issues of new technology, market trend, and politics. The topic of the lecture is chosen strategically since this is not just a social gathering (Kang 2015). Yet, after Vice President Lee Jae-yong had been imprisoned in February 2017, the meetings have been canceled, and the Future Strategy Office was dismantled in March 2017. Lee Jae Yong was accused of paying bribery to Choi Soon-sil, a confidante of former president, Park Geun-hye, Samsung had no choice but to dismantle the office³ (*The Economist* 03/02/2017). The Future Strategy Office had been blamed of granting too much authority to the Lee family. The *sooyo-sajangdan-boeni* has not been yet revived, but as in the case of *kinyo-kai*, *sooyo-sajangdan-boeni* also has played an important role within Samsung. The effectiveness of the *sooyo-sajangdan-boeni* can also be analyzed by the ABCD model as in Table 2.

Table 2. ABCD Analysis of Samsung's *Sooyo-sajangdan-hoeui*

| Factors | Subfactors | Samsung <i>sooyo-sajangdan-hoeui</i> |
|---------------------|------------------|---|
| Agility | Speed | Learning the up-to date issues through weekly meetings |
| | Precision | Decides the subject of the lecture strategically prior to 2 to 3 months |
| Benchmarking | Learning | Learning through lectures, and learning through other firms |
| | Best practice | Learning the up to date issue of today through the best lecturers |
| Convergence | Mixing | Subject of the lecture varies among humanities, IR, politics, and of course business and technology |
| | Synergy-creation | Synergy can be created through learning from various subject and discussing with others |
| Dedication | Diligence | Subject of the lecture varies among humanities, IR, politics, and of course business and technology |
| | Goal-orientation | Synergy can be created through learning from various subject and discussing with others |

Source: Reorganized and added by author based on Y. Lee (2016) and Kang (2015)

For practicing agility, presidents of the Samsung meet every week to discuss the most up-to date issues delivered by the best lecturers. The topic of the lectures attracts interests from various industries and other business groups as well, and the topics are related to the business trend or political issues of the world (H. Lee 2016). The topics are decided

³ South Korea had suffered from a massive corruption scandal involving political and business elite, and President Park Geun-hye had been impeached in March, 2017 (*BBC News* 04/06/2018)

strategically two to three months prior to the meetings (Kang 2015). These two factors show how the *sooyo-sajangdan-boeni* demonstrates speed and precision which are the subfactors of agility.

Regarding benchmarking, it is realized by the special lectures conveyed by experts. They can learn through attending the lectures, and also by discussing with other firms within the group. The topics are chosen precisely and strategically. Similar to the case of *kinyo-kai*, learning and best practice occurs from attending lectures and from discussing with the member firms.

The topics of the lectures are diverged among various subjects such as business and technology, humanities, international relations (IR), and politics. In 2013, among 45 lectures, 17 lectures were about humanities, and 9 lectures were about politics and IR. In 2014, 47 lectures were conveyed and 24 lectures were about business and management, and 9 lectures were about humanities and politics. The subjects sometimes were also related to leadership, as the participants are the leaders of each firm in the group. Thus, topics and subjects vary depending on circumstances and social environment. Mixing and synergy-creation can be demonstrated by learning various subjects and by discussing with presidents from various backgrounds. Samsung persists to be one of the best *chaebol* with the best brand names throughout its diverse industries; This demonstrates they have been successful in convergence.

Regarding dedication, the presidents that attend the *sooyo-sajangdan-boeni* are highly dedicated and diligent. The meetings are carried out every Wednesday from eight o'clock in the morning. The meetings are also clearly goal-oriented, as the topic of the lecture being strategically determined. The participants can be motivated towards the same strategic direction (Kang 2015).

DISCUSSION

In the previous two sections, the effectiveness and competitiveness of *kinyo-kai* and *sooyo-sajangdan-boeni* have been analyzed through the ABCD model. This paper aims to compare the two cases by each of the four factors of the model.

Agility

Until the 1980s, Japanese firms have been the leading companies among the world through their highly advanced technology. However, Japan started to lose its competitiveness since the 1990s; especially since the 2000s, Korean firms such as Samsung achieved global

leadership in various industries. Despite Japan's high-tech capacity, with their *monozukuri* (artisanship), they consume too much time and lack the flexibility to address varying customer needs. On the other hand, Korean firms are fast and also have high precision which allowed them to achieve competitiveness (Moon 2016). Speed and precision can also be found in Samsung's *sooyo-sajangdan-boeni* rather than from the *kinyo-kai*. *Kinyo-kai* members may be able to make speedy decisions through the institutionalized and hierarchical structure with clear authority given to certain group members. Yet their meetings are conducted monthly, whereas *sooyo-sajangdan-boeni* members meet weekly. *Kinyo-kai* meetings are followed by *getsuyo-kai* meeting, which is a subordinate organization, emphasizes precision, certain subject being discussed thoroughly step by step. However, *sooyo-sajangdan-boeni* meets every week, and the number of meetings is about four times greater compared to *kinyo-kai*, and they also have precision on deciding the topic of lecture by considering various factors prior to the meetings. Samsung has competitiveness in both precision and speed which offer implications to *kinyo-kai*.

Benchmarking

In the case of benchmarking, as the purpose of the *kinyo-kai* and *sooyo-sajangdan-boeni* are similar, the subfactors of learning and best practices are both applicable to the two cases. Mitsubishi and Samsung can both learn from attending lectures and through discussing with the member firms. In the case of Mitsubishi, the *kinyo-kai* functions as the crisis management organization, and discusses about the troubled firm and its situations. Through these meetings, the *kinyo-kai* member firms are able to learn from the failure of other member firms and on the solution to overcome in case of crisis. On the other hand, in the case of Samsung, the topics are decided two to three months prior to the meeting and are chosen strategically. Samsung firms have more chances to attend lectures teaching best practices by meeting weekly. These cases connote *kinyo-kai* have more advantage in learning, and *sooyo-sajangdan-boeni* is more competitive in terms of best practice.

Convergence

Shacho-kai is organized to represent the core of the *keiretsu* network in the first place, the most important element of the meeting is the convergence factor. In both cases, as firms are horizontally diversified within the group, gathering among firms from various industries represent mixing. On the other hand, the subfactor synergy-creation is better represented by the *kinyo-kai* since they have the function to support each other in times of crisis. In case

of *sooyo-sajangdan-boeni*, due to the dismantling of the Future Strategy Office, the meetings have been canceled since the imprisonment of vice president Lee Jae-Yong. The *sooyo-sajangdan-boeni* is currently not functioning in case of crisis as the *kinyo-kai* functions.

Dedication

With regards to the subfactors of the final factor dedication, both meetings give implications to each other. Generally, Japanese people are famous for their diligence and preciseness. However, as Korean people needed to catch up, they worked much harder. According to the OECD statistics, Korea has the second longest annual working hours among the OECD member countries (Moon 2016). As with the *sooyo-sajangdan-boeni*, they meet weekly, amounting to more than forty meetings in one year. *Kinyo-kai* meetings are held once a month, even though there are other follow-up meetings; the number of meetings in one year is only twelve times. In the case of goal-orientation, each meeting has clear motivation of its own. *Kinyo-kai*'s motivation is to persist its brand name, and *sooyo-sajangdan-boeni* is to discuss about the future strategy of Samsung as a group.

At the same time, the goal-orientation of the meetings is related to the ownership structure of the group. In the case of Mitsubishi, *kinyo-kai* was formed to organize a core that could play a role as headquarter. Since Mitsubishi Group is not owned by a dominant group or certain family member, the identity and the brand name of the group are emphasized through these meetings, and the members are mostly former employees who became to be the presidents through lifetime employment (Tanaka 2016). In case of *sooyo-sajangdan-boeni*, it had been organized by the Future Strategy Office which is the symbol for power of Lee family. The Future Strategy Office has been currently dismantled, however, recently there have been discussions regarding the need of a control tower for the Samsung Group, and as the Future Strategy Office has the history of being disbanded in 2008 and reborn in 2010⁴, there is a possibility for the office to come back with new structure. Yet, if Samsung plans to reorganize the Future Strategy Office, it must consider a way to cut off the corrupted practices and build up a new structure for better governance for the group.

⁴ Samsung had disbanded the same office, then called the "Strategy and Planning Office", but have been reborn as the Future Strategy Office.

The *sooyo-sajangdan-boeui* should be reorganized when Samsung finds its way with a better control tower structure.

Table 3. Comparative Analysis of *Kinyo-kai* and *Sooyo-sajangdan-boeui*

| Factors | Subfactors | Mitsubishi <i>kinyo-kai</i> | Samsung <i>sooyo-sajangdan-boeui</i> | Remarks |
|---------------------|------------------|--------------------------------|---|--|
| Agility | Speed | △ | ○ | Samsung meeting weekly makes them speedier. |
| | Precision | ○ | ○ | Both have high precision. |
| | Learning | ○ | △ | Mitsubishi can learn from crisis of other member firms. |
| Benchmarking | Best practice | △ | ○ | Samsung firms have more chances to attend lectures teaching best practices by meetings organized weekly. |
| | Mixing | ○ | ○ | Both groups being horizontally diversified, mixing can equally occur. |
| Convergence | Synergy-creation | ○ | △ | Crisis management function of Mitsubishi offers better synergy creation. |
| | Diligence | △ | ○ | <i>Sooyo-sajangdan-boeui</i> meets about four times more than <i>kinyo-kai</i> . |
| Dedication | Goal-orientation | ○ | △ | Clear goal orientation for Mitsubishi, but the motivation for Samsung is questioned by the Korean society. |

CONCLUSION

The attention to *shacho-kai* in Japan had received recognition when Japan had competitiveness, but not much discussion had been done in the recent years. The *sooyo-sajangdan-boeui*, on the other hand, is a unique culture of Samsung in the Korean economy and had received attention from the media regarding its lecture topics and the relationship with the Future Strategy Office. However, it has not received much attention as a research topic. This study aimed to shed light on the detail and the competitiveness of *shacho-kai* in Japan by conducting a case study of *kinyo-kai* of Mitsubishi. Also, by conducting a comparative study with a similar organization in Korea, which is the *sooyo-sajangdan-boeui* of Samsung, this study provided implications to both Mitsubishi and Samsung.

To summarize, regarding the agility factor, the *kinyo-kai* of Mitsubishi lacks speed compared to the *sooyo-sajangdan-boeui* of Samsung, as the frequency of the meeting is monthly whereas Samsung meets weekly. In a fast changing environment, monthly meetings seem is not enough to respond to the volatile situations. For the benchmarking factors, in terms of

learnings, Mitsubishi can learn from crises of other member firms through their crisis management function, whereas Samsung firms have more chance to attend lectures that teach best practices by meeting weekly. For convergence, both meetings are successful in mixing, but for synergy-creation, *kinyo-kai* seems to be better since it has the function for supporting the member firms in case of a crisis. For dedication, Samsung is much more diligent due to its frequent meetings. Each meeting have their own original motivations, the goal-orientation factor gives implication for each other. Yet in the case of *sooyo-sajangdan-boeni*, Samsung needs to consider a proper governance and motivation for the Future Strategy Office for the meetings to be reorganized.

Both cases provide implications to one another. As Korean firms have succeeded through their agility, and especially in terms of speed, Japanese firms should better work on their speed rather than precision. In terms of synergy-creation and goal-orientation, *kinyo-kai* provides implications to the *sooyo-sajangdan-boeni* in the future. *Kinyo-kai* has been stably held since its formation, and this is due to their function, which is the synergy creation and clear goal-orientation.

This study has approached the *keiretsu* and *chaebol* system by focusing on the detailed and comprehensive analysis of *shacho-kai* and *sajangdan-boeni*. *Shacho-kai* and *sajangdan-boeni* function as the core of the business groups and effective tool for corporate governance. This kind of comparative study is needed to derive implications for management of business groups in the two countries. For further studies, comparative analysis for elements other than the *shacho-kai*, such as effectiveness of the general trading companies as the core firm of business group, with application of ABCD model would provide further strategic implications.

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