A Taxonomy of Systems of Corporate Governance

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This paper argues that debate on corporate governance in an international context is hampered by the lack of a coherent framework. A taxonomy of systems of corporate governance is proposed as a remedy. The taxonomy is based upon eight characteristics: the prevailing concept of the firm, the board system, the salient stakeholders able to exert influence on managerial decision-making, the importance of stock markets in the national economy, the presence or absence of an external market for corporate control, the ownership structure, the extent to which executive compensation is dependent on corporate performance, and the time horizon of economic relationships. Four types of systems of corporate governance emerge: the Anglo-Saxon systems, the Germanic systems, the Latin systems and the Japanese system.

Key words: systems of corporate governance, international, taxonomy.

Introduction

Especially since the collapse of the centrally planned economies, academics, practitioners and policy makers have demonstrated a dramatically increased interest in systems of corporate governance. The most familiar outcomes of this interest are the reports in which independent committees assess national governance systems and make recommendations to improve their effectiveness. Examples are the Council of Competitiveness' Report (USA, 1992), the Cadbury Report (UK, 1993), the Viénot Report (France, 1996) and the Peters Report (the Netherlands, 1998). Although the differences between the "Anglo-Saxon" and "Rhineland" governance systems are now far from unfamiliar, the debate on corporate governance in an international context is still hampered by the lack of a framework wherein these systems can be positioned in a methodical manner. As a result, the purpose of this paper is to develop a taxonomy of systems of corporate governance. Such a taxonomy adheres to the increased interest in different governance systems, the apparent willingness to make critical self-evaluations and the structuring of governance research in an international setting.

Terminology, structure and limitations

The scope of this paper and its ambitious purpose require specification of the terminology used and explication of its limitations. First, a system of corporate governance is defined as a more-or-less country-specific framework of legal, institutional and cultural factors shaping the patterns of influence that stakeholders (e.g. managers, employees, shareholders, creditors, customers, suppliers and the government) exert on managerial decision-making. The breadth of this definition adheres to the purpose of the paper and allows approaches of governance issues from different theoretical angles (e.g. economic, sociological and psychological). An examination of the merits and drawbacks of different theories for increasing our understanding of corporate governance is however not conducted in this paper. The reason is that these theories are primarily concerned with corporate governance at the level of the firm (for an

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extensive overview, see Turnbull, 1997). The focus of this paper is on corporate governance at the level of countries, that is on *systems of* corporate governance. Second, by ''taxonomy" is meant an overview of characteristics of systems of corporate governance, wherein the appraisal of the characteristics results logically in discernible classes of governance systems. In this respect, "taxonomy" is seen to be synonymous with "typology" or ''classification".

Among others, Scott (1985), De Jong (1989), Moerland (1995a,b) and Weimer (1995) propose four groups of relatively rich, industrialized countries for which more or less resembling so-called corporate systems can be identified: (1) Anglo-Saxon countries (the USA, the UK, Canada and Australia), (2) Germanic countries (Germany, the Netherlands, Switzerland, Sweden, Austria, Denmark, Norway and Finland), (3) Latin countries (France, Italy, Spain and Belgium) and (4) Japan (which is considered an isolate). This division into four groups is used to classify governance systems in this paper.

Based on the aforementioned and a large number of other sources containing both qualitative and quantitative data, at least eight characteristics of systems of corporate governance can be identified. All characteristics have legal, institutional and cultural dimensions, although one of these is commonly prevalent. The inventory of characteristics is seen to cover a major part of the governance spectrum, but it is not regarded to be exhaustive. The eight characteristics to be examined in this paper are:

a. The prevailing concept of the firm;
b. The board system;
c. The salient stakeholders able to exert influence on managerial decision-making;
d. The importance of stock markets in the national economy;
e. The presence or absence of an external market for corporate control;
f. The ownership structure;
g. The extent to which executive compensation is dependent on corporate performance;
h. The time horizon of economic relationships.

In Table 1, these characteristics are assayed for the different country groups. At the highest level of abstraction, this results in a distinction between "market-oriented" and "network-oriented" systems of corporate governance. This terminology is also used by Moerland (1995a,b). The paramount characteristic of the market-oriented systems is an active external market for corporate control, which serves as a mechanism for independent shareholders to influence managerial decision-making. By contrast, in the network-oriented systems oligarchic groups substantially sway managerial decision-making via networks of relatively stable relationships. The most common forms of networks are cross-shareholdings and interlocking directorships. The market-oriented systems prevail in the Anglo-Saxon countries. Largely based on the identity of oligarchic groups, different classes of network-oriented systems can be recognized for Germanic countries (e.g. Germany, where banks and employees are influential), Latin countries (e.g. France and Italy, where family control is relatively important), and Japan (where banks serve as the nucleus of mutually related, vertically and horizontally integrated groups of firms). To a greater or lesser extent, the qualification of all other characteristics supports the division between these four classes of governance systems, as will be demonstrated in the course of the paper. In order to further facilitate comparison, the Gross Domestic Product (GDP) and the GDP per capita are denoted in Table 1 for each country.

Four global governance systems

The major limitation of the taxonomy is that it is descriptive, and solely meant for enabling rough comparisons using a common set of system characteristics. In addition, the classification is not entirely unequivocal. National governance systems within one country group might show relevant differences, and systems in countries attributed to different groups might display noteworthy similarities. Another limitation of the taxonomy is that emphasis is placed on publicly listed firms.[2] Notwithstanding the relevance of a taxonomy for other types of companies, this is regarded unavoidable because many of the data to support the classification are solely available for listed firms.

In the remainder of this paper the qualification of the characteristics of governance systems in Table 1 will be explicated for the Anglo-Saxon, Germanic and Latin countries, and Japan, respectively. Afterwards, a summary and concluding remarks follow.

Anglo-Saxon countries

Regarding the Anglo-Saxon countries, only the USA and the UK are dealt with in somewhat greater depth because of the relative size of their GDPs (see Table 1). In the Anglo-Saxon countries one specific stakeholder can be identified which can exert a substantial influence on managerial decision-making: the

Table 1. A taxonomy of systems of corporate governance

Market/network-oriented system of corporate governance	Market-oriented	Network-oriented		
Country class	Anglo-Saxon	Germanic	Latin	Japan
Countries (GDP 1995 × US$ 1,000,000,000; GDP per capita × US$ 1 at current prices and exchange rates). Source: IMF for GDP, OECD for GDP per capita	USA (7,246; 25,512) UK (1,107; 17,468) Canada (569; 18,598) Australia (349; 18,072)	Germany (2,259; 25,133) the Netherlands (396; 21,733) Switzerland (287; 36,790) Sweden (246; 22,389) Austria (233; 24,670) Denmark (175; 28,181) Norway (147; 28,434) Finland (126; 19,106)	France (1,567; 22,944) Italy (1,119; 17,796) Spain (574; 12,321) Belgium (264; 22,515)	Japan (4,961; 36,732)
Concept of the firm	Instrumental, shareholder-oriented	Institutional	Institutional	Institutional
Board system	One-tier (executive and non-executive board)	Two-tier (executive and supervisory board)	Optional (France), in general one-tier	Board of directors; office of representative directors; office of auditors; *de facto* one-tier
Salient stakeholder(s)	Shareholders	Industrial banks (Germany), employees, in general oligarchic group	Financial holdings, the government, families, in general oligarchic group	City banks, other financial institutions, employees, in general oligarchic group
Importance of stock market in the national economy	High	Moderate/high	Moderate	High
Active external market for corporate control	Yes	No	No	No
Ownership concentration	Low	Moderate/high	High	Low/moderate
Performance-dependent executive compensation	High	Low	Moderate	Low
Time horizon of economic relationships	Short term	Long term	Long term	Long term

influence of *shareholders* is strongly institutionalized in these countries. Roughly put, the firm is conceived as a combination of managerial directors operating for the benefit of shareholders, or as an instrument for the creation of shareholder wealth. In connection hereto, the law strongly protects shareholders. In the USA, this protection is embodied in, among others, the Securities Exchange Act (1934), the Securities Investor Protection Act (1970), the Insider Trading Sanctions Act (1984) and the Private Securities Litigation Act (1995).[3] Comparable legislation or codes of conduct in the UK comprise the Company Securities Act (1985, revised in 1989), the City Code on Takeovers and Mergers and the Financial Services Act (1986).[4] According to Franks and Mayer (1990), "the rationale behind these rules and regulations is the promotion of securities markets. Equal access to information and protection of small investors from exploitation by dominant shareholders are regarded as central to that process" (p. 209). As a result, in the Anglo-Saxon countries by-and-large the democratic principle of "one share, one vote" applies.

A one-tier board of directors further characterizes the Anglo-Saxon countries: executive and supervisory responsibilities of the board are condensed in one legal entity. There are, however, executive ("inside") and non-executive ("outside") board members. The latter are outside experts, who are frequently also executive board members of other firms. From a legal point of view, the outside directors are responsible for the management of the corporation. They are expected to exercise the duties of loyalty, care and good business judgment, and their primary accountability is to shareholders (Lorsch and MacIver, 1989). From a practical point of view, the non-executive board members advise the inside directors on major policy decisions while bearing the interests of shareholders in mind (Bleicher and Paul, 1986). Both the executive and non-executive board members are appointed and dismissed by the general assembly of shareholders.

In line with the previous observations, stock markets play a more important role in

Anglo-Saxon countries than they do in the other groups of countries. The Federation of International Stock Exchanges (FIBV) uses two indicators of this importance: (1) the market capitalization of domestic companies as a percentage of the GDP and (2) new equity capital raised through public offerings as a percentage of the Gross Fixed Capital Formation (GFCF). The values of these indicators are denoted for the countries under consideration in Table 2. As the table shows, the aggregate market capitalization of companies in the Anglo-Saxon countries equals 82.1% of their GDPs in 1995. This figure is considerably smaller for the Germanic and Latin countries: 41.7% and 27.3%, respectively. Measured by this indicator, stock markets also play an important role in Japan's national economy (83.5%). However, the new capital raised as a percentage of the GFCF is much lower in Japan than in the Anglo-Saxon countries (0.5% versus 10.0%). Regarding the Germanic and Latin countries, the second indicator points in the same direction as the first relative to the Anglo-Saxon countries. Anglo-Saxon stock markets are utilized more intensively by domestic companies for raising capital in comparison to Germanic and Latin ones (10.0% versus 6.5% and 3.9% respectively).

Anglo-Saxon – takeover corporate governance

Probably the best known characteristic of the Anglo-Saxon systems of corporate governance is an active external market for corporate control, often referred to as the takeover market. The most familiar takeover techniques are mergers, tender offers, proxy fights and leveraged buy-outs. The takeover process is seen to act as a discipline on firms, allowing control to be transferred from inefficient to efficient management teams and encouraging a convergence of interests between the corporate management and the shareholders (Franks and Mayer, 1990).[5] Especially in the USA and the UK takeovers are regarded as a central function of stock markets. Prowse (1995) reports that the average annual volume of completed domestic takeovers as a percentage of total market capitalization over the period 1985–1989 equals 41.1% in the USA and 18.7% in the UK. In the non-Anglo-Saxon countries much less emphasis is placed on the role of takeovers through stock markets in changing corporate control. For instance, the aforementioned figures are 2.3% and 3.1% for

Table 2. Importance of stock markets in the national economies of Anglo-Saxon, Germanic, and Latin countries, and Japan (figures × US\$ 1,000,000,000)

COUNTRY CLASS Country	*Gross Domestic Product (GDP) 1995*	*Market Value Domestic Companies (MVDC) 1995*	*MVDC as % of GDP*	*Gross Fixed Capital Formation (GFCF) 1995*	*New Capital Raised (NCR) 1995*	*NCR as % of GFCF*	*Data based on stock exchange(s)*
ANGLO-SAXON							
United States	7,245.8	5,654.8	78.0%	1,028.2	96.5	9.4%	NYSE
United Kingdom	1,106.7	1,346.6	121.7%	163.6	20.3	12.4%	London
Canada	568.6	366.3	64.4%	98.4	8.9	9.1%	Toronto
Australia	348.8	244.3	70.1%	71.6	10.3	14.4%	Australian
Total	***9,269.9***	***7,612.1***	***82.1%***	***1,361.8***	***136.0***	***10.0%***	***Total***
GERMANIC							
Germany	2,259.3	577.4	25.6%	401.1	23.0	5.7%	Germany
Netherlands	395.6	286.7	72.5%	77.8	11.1	14.3%	Amsterdam
Switzerland	287.2	398.1	138.6%	63.0	1.9	3.0%	Switzerland
Sweden	245.5	172.6	70.3%	35.7	3.6	10.0%	Stockholm
Austria	233.2	32.5	13.9%	57.7	2.1	3.7%	Vienna
Denmark	174.7	57.7	33.0%	28.1	2.1	7.3%	Copenhagen
Norway	146.5	44.6	30.4%	31.3	1.2	3.8%	Oslo
Finland	126.2	44.1	35.0%	19.4	1.4	7.2%	Helsinki
Total	***3,868.2***	***1,613.6***	***41.7%***	***714.0***	***46.4***	***6.5%***	***Total***
LATIN							
France	1,566.8	500.0	31.9%	281.8	13.8	4.9%	Paris
Italy	1,118.7	209.5	18.7%	170.0	9.7	5.7%	Italy
Spain	574.3	150.9	26.3%	119.6	N/A	N/A	Madrid
Belgium	263.5	101.8	38.6%	45.2	0.4	0.8%	Brussels
Total	***3,523.3***	***962.2***	***27.3%***	***616.6***	***23.8***	***3.9%***	***Total***
JAPAN							
Japan	***4,393.8***	***3,667.3***	***83.5%***	***1,385.0***	***6.8***	***0.5%***	***Tokyo***

Sources: IMF and World Bank for GDP, IMF for GFCF, FIBV for MVDC and NCR

Germany and Japan, respectively (Prowse, 1995). In the Germanic and Latin countries and Japan different means of swaying managerial decision-making prevail, which will be covered in the next sections.

Takeovers are termed "hostile" when the management of the target firm opposes them (Franks and Mayer, 1990). Perhaps contrary to popular belief, hostile takeovers are a minority of total takeovers in the Anglo-Saxon countries. Such takeovers are considered an "option of last resort" because they are a relatively expensive means of correcting managerial decision-making (Fama, 1980). Prowse (1995) reports that of all attempted takeovers in the period 1985–1989, 17.8% could be termed hostile in the USA and 37.1% in the UK. In accordance with conventional wisdom, the frequency of hostile takeovers is much lower in the network-oriented governance systems (9.6% for the rest of Europe: Prowse, 1995). In Germany only a handful of completed hostile takeovers have been reported.[6] In Japan they have never occurred (Moerland, 1995a).

Systems of corporate governance in the industrialized nations also differ markedly with respect to their ownership structures. The structure of ownership has two mutually related dimensions: the concentration of ownership and the identity of shareholders. In general, in the Anglo-Saxon countries firms are relatively widely held (low ownership concentration). The OECD (1997) estimates that in the USA and the UK the largest five shareholders hold on average 20–25% of the outstanding shares. Ownership concentration is significantly higher in Japan and Germany, and especially in the Latin countries.

The identities of shareholders of listed corporations in the five largest countries under study are summarized in Table 3. As the table shows, especially in the USA individuals own a large portion of the shares of quoted companies (51.4%). The degree of individual ownership is much lower in the UK (17.7%), while the vast majority of the other shares are held by financial institutions (61.2%). The ownership structure in the Anglo-Saxon countries partly explains the existence of an active market for corporate control. The wider corporations are held, the less mechanisms shareholders can use effectively to influence managerial decision-making in a direct manner (e.g. by the exercise of voting rights at the general assembly, board opposition to management proposals and informal dialogue). In the USA, direct mechanisms of influence can be utilized even less effectively because of the non-professionalism associated with ownership by individuals.

In the context of corporate governance, executive compensation customarily concerns the extent to which executive pay is related to the performance of the firm. Common forms of performance-dependent executive compensation are share-option plans to align the interests of managers and shareholders, as well as multi-year bonus plans. Abowd and Bognanno (1995) report that particularly in the USA, this remuneration is an important and still growing part of total managerial compensation. It accounts for approximately one-third of total compensation for CEOs in 1992. Also in the UK and Canada, the employment of performance-related pay is of clear and growing importance. Weimer (1995) supports the notion of relatively high variable remuneration in the USA. In a sample of 220 listed firms, top management owned shares in "their" firms in 100% of the cases in the USA, compared to 67% in the Netherlands and 33% in Germany.

Finally, the Anglo-Saxon system of corporate governance is characterized by relatively short-term economic relationships. Quite unrestricted markets for capital, labor, goods and services ensure rapid adjustment to

Table 3. Ownership of common stock in the US, UK, Germany, France and Japan

	US (1994)	***UK (1993)***	***Germany (1993)***	***France (1994)***	***Japan (1992)***
Individuals	51.4%	17.7%	16.6%	19.5%	22.4%
Banks	0.1%	0.6%	14.3%	3.8%	18.9%
Other financial institutions	44.4%	61.2%	14.7%	4%	29.1%
Non-financial corporations	0%	3.1%	38.8%	57.9%	24.9%
Government	0%	1.3%	3.4%	3.7%	0.7%
Foreign	4.2%	16.3%	12.2%	11.1%	4.0%

Source: OECD (1997)

changing circumstances, thereby disfavoring long-term and stable relationships (Gelauff and Den Broeder, 1996). This phenomenon has led some to observe that managers in the Anglo-Saxon countries are myopic, focussing on boosting the next quarterly figures while underinvesting in long-term assets such as research and development or training (e.g. Porter, 1992; Prodhan, 1993). However, according to others, there is no concrete evidence to support these claims (e.g. Shleifer and Vishny, 1997).

Germanic countries

Regarding the Germanic countries, only Germany and, to a much lesser extent, the Netherlands are dealt with in somewhat more depth because of the relative size of their GDPs (see Table 1). The corporation is not, as in Anglo-Saxon countries, seen as a device to create shareholder value. Rather, it is considered as an autonomous economic entity constituting a coalition of various participants, such as shareholders, corporate management, employees, suppliers of goods and services, suppliers of debt and customers, striving for the continuity of the firm as a whole (Moerland, 1995a).

In contrast to the USA and the UK, Germany and the Netherlands have a two-tier board system. In Germany, the board comprises a management board (*Vorstand*) and a supervisory board (*Aufsichtsrat*), which provides a complete separation between management and supervision of management. From a legal point of view, the supervisory board has the duty to monitor the competence of the management board. From a practical point of view, it gives advice on major policy decisions. The management board is appointed and dismissed by the supervisory board. For an extensive description of the German two-tier board system the reader is referred to Bleicher and Paul (1986), Edwards and Fischer (1994) and Kaplan (1995).

The composition of the *Aufsichtsrat* in Germany reflects that *employees* and *shareholders* are salient stakeholders that can exert substantial influence on managerial decision-making. This also applies to the Netherlands. German corporations with 2,000 employees or more must occupy half of the supervisory board seats with employee representatives (smaller ones appoint one-third). Trade unions are entitled to supervisory board positions. The right of employees to participate in decision-making is known as ‘‘codetermination”, which is also reflected in the fact that workers' counsels have rights regarding working hours, holidays, hirings, and dismissals. The other members of the supervisory board are appointed by the general assembly of shareholders (*Hauptversammlung*). The assembly has the right to elect the chairman, who has double voting rights. Removal of members of the supervisory board requires the approval of 75% of the shareholders. The influence of independent shareholders on managerial decision-making is limited, however. The "one share, one vote" principle pursued in the Anglo-Saxon countries does not prevail in the Germanic countries. German companies can issue non-voting shares up to an amount equal to that of all voting shares issued and can limit the voting power of an individual shareholder irrespective of the number of shares held (Franks and Mayer, 1990). Dutch, Swiss and the firms from the other Germanic countries also have and utilize the ability to limit the power of the shareholders by several protective measures.[7]

Germanic – autonomous economic corporate governance

More specifically, large German general *banks* are salient influential stakeholders. Apart from their role as suppliers of debt, their potential influence has two dimensions: equity ownership and supervisory board seats. There are almost no restrictions for the German banks to hold large blocks of shares of non-financial firms. This is in sharp contrast to, for instance, the USA, where the Glass-Steagall Act (1933) and the Bank Holding Company Act (1956) forbid commercial banks to participate in the shareholders' capital of non-financial corporations on their own account.[8] German banks own about 14% of listed companies (see Table 3). However, the potential influence of banks in their role as shareholders is larger than this figure suggests. By legal device called *Depotstimmrecht* banks have the right to assemble the voting rights conferred to them by custody of bearer shares of individual investors who have surrendered their proxies. Thus, the 16.6% of individual ownership in Table 3 can be attributed partly to banks.[9]

Regarding the second dimension, Schneider-Lenné (1994) reports that of the total number of 1,495 supervisory boards of the 100 largest German firms in 1988, 136 were occupied by representatives of banks, while 729 seats were appointed to trade union and other employee representatives. The remaining seats were occupied mainly by shareholder representatives other than banks. These figures reflect the system of codetermination mentioned earlier. However, as in the case of ownership, the potential influence of banks in their role as supervisory board members is larger than the

Latin – concept between instrumental and institutional

9% of seats might suggest. If the number of interlocking board seats is taken into account, as opposed to the number of seats, it can be concluded that banks are strongly involved in the corporate network.[10] In addition, the chairman of the supervisory board is sometimes a bank representative (as in the case of Deutsche Bank and Daimler-Benz) and therefore has a casting vote.

As illustrated in Table 2, stock markets play a less important role in the economy of Germanic countries than they do in Anglo-Saxon countries, and an active external market for corporate control is almost non-existent. Generally, in the Germanic countries influence on managerial decision-making is not exerted via the "invisible hand" of stock markets, but via the visible hand of dialogue between the management board and the supervisory board around the negotiation table. The ownership structure in Germanic countries partly explains the absence of an active market for corporate control. The more concentrated companies are held, the more mechanisms shareholders can use effectively to influence managerial decision-making in a direct manner, and the less acute is the "option of last resort" to correct managerial decision-making by (the threat of) a hostile takeover. This applies in particular to Germany, where companies are very densely held. The OECD (1997) estimates that the largest five shareholders hold on average 41% of the outstanding shares. In addition, Prowse (1995) reports that in a sample of 310 listed non-financial German companies roughly one-quarter had a majority shareholder. This situation is significantly different in the USA and the UK, where the frequency of majority ownership yielded about 10% in comparable samples.

The other dimension of ownership structure, shareholder identity, also helps explain the absence of a market for corporate control. The network orientation of the German governance system is reflected in the fact that non-financial corporations own 38.8% of the shares of listed firms (see Table 3): mutual cross-shareholdings between firms are generally permitted and commonplace. There is an implicit agreement that such shareholdings are not used to launch unwelcome takeovers (Franks and Mayer, 1990). German corporations can take cross-shareholdings subject to a limitation of 25% of the voting rights associated with those shareholdings, but irrespective of their size. By contrast, in the Anglo-Saxon countries one-third of corporate ownership must result in a bid on all the other shares. Over the course of time, German banks have played a pivotal role in the establishment of the current ownership structure. The scope of this paper does not allow a balanced perspective on this process. For historical overviews the reader is referred to Dyson (1986), Schneider-Lenné (1994) and Edwards and Fischer (1994).[11]

The use of performance-related compensation for executives in the Germanic countries seems to be rather limited. Although variable pay has been becoming more important in these countries, Abowd and Bognanno (1995) report hardly any such compensation at all in Germany, the Netherlands and Sweden. In Switzerland performance-related remuneration is not uncommon, but its significance is small in comparison with the Anglo-Saxon countries.

Germany is one of the countries wherein stakeholders are persistently seen to employ a long-term time horizon (ICMG, 1995). The sizeable and stable shareholdings by non-financial corporations and banks mentioned earlier allow for long-term and stable economic relationships, as does the institutionalized influence of employees (Gelauff and Den Broeder, 1996). In general, also in the other Germanic countries the institutional environment favors the establishment of long-term relationships.

Latin countries

Regarding the Latin countries, only France and, to a lesser extent, Italy is dealt with in somewhat more depth because of the relative size of their GDPs (see Table 1). The concept of the firm in the Latin countries lies somewhere in between the instrumental, Anglo-Saxon view and the institutional, Germanic view, but is altogether probably closer to the latter. In France, companies have the choice of using either a one-tier or a two-tier board system. The vast majority of listed companies (98%) have chosen the unitary system, Peugeot and Paribas being the notable exceptions (ICMG, 1995). Shareholders can appoint and dismiss the management board with a 50% majority of the voting rights. Limited to the one-tier system, French corporate law does not distinguish between executive and non-executive directors on the management board. *De facto* at least two third of the board can be qualified as non-executives, usually being representatives of major shareholders. Accordingly, they are not "independent" in the sense of having no business or other relationship with the company. The authority of the company president (*président-directeur-générale*) further characterizes the French board system. He has wide powers in relation to the management of the company. His role can be seen as an indication of a significant cultural influence on the French governance system: the predilection for concentrations of power (ICMG, 1995).

Shareholders in the Latin countries are probably more influential than in the Germanic countries since shareholder sovereignty is viewed as an important concept, but their influence is not as decisive as in the Anglo-Saxon countries. One of the fundamental principles of French corporate law is that directors can be removed by the shareholders at will. This principle is known as *révocabilité ad nutum* (ICMG, 1995). In addition, the countervailing influence of employees is less institutionalized than in the Germanic countries.[12] However, in practice the influence on managerial decision-making that can be exerted by independent shareholders is relatively small (De Jong, 1989). As in the Germanic countries, and in contrast to the Anglo-Saxon countries, the "one share, one vote" principle does not apply in general. In France, up to 25% of shareholders' capital can, under certain circumstances, be issued as non-voting preferred equity. Also, up to 25% of capital may be issued as investment certificates that can only be transferred to holders of other investment certificates (Franks and Mayer, 1990).

Regarding the influence of shareholders more specifically, the Latin countries are characterized by financial holdings and cross-shareholdings, government control and family control (De Jong, 1989; Moerland, 1995a,b). As in Germany and Switzerland, bank shareholdings are important especially in France (*banque d'affaires*) and Spain. However, as in the USA, Italian banks are not allowed to hold securities on their own behalf, and also in Belgium there are legal requirements preventing banks from taking stakes in non-banking corporations. Financial holdings in France come in diverse schemes, which in effect are similar to cross-shareholdings. One common form is where corporations and their subsidiaries hold each other's voting rights reciprocally (*système autocontrôle*). Another form is where companies place their shares within a limited group of "friendly" companies (*système verrouillage*; De Jong, 1989). In France the entire banking sector was nationalized in 1981, resulting in the *government* becoming an important shareholder in a variety of corporations. As Table 3 shows, the recent wave of privatizations (e.g. Rhône Poulenc, Elf Aquitaine and Renault) has resulted in a now small fraction of government ownership. However, as Franks and Mayer (1990) report, in the recent past the influence of the French government found expression in the delay and impediment of takeovers that have been deemed against the national interest (e.g. Victoire, Gallimard, Télémécanique and Navigation Mixte). The 19.5% of ownership by individuals in France in Table 3 can be attributed in part to the founding *families* of corporations (ICMG, 1995). Family control is even more important in Italy (e.g. the Agnellis; Moerland, 1995a,b).

As illustrated in Table 2, stock markets play a much less important role in the economy of Latin countries than they do in the Anglo-Saxon countries. There is no active market for corporate control, but the number of hostile takeovers is higher than in the Germanic countries (Moerland, 1995b). As in the cases of the two previous groups of countries, the ownership structure in the Latin countries partly explains the minor role the market for corporate control plays. Ownership concentration is relatively high in France, Italy and Spain. The percentage of shares controlled by the five largest shareholders average 48% in France and nearly 87% in Italy (OECD, 1997). In Italy, family or industrial groups hold controlling interests in virtually all of the 200 listed corporations (Zingales, 1994). In addition, in France the effectiveness of a market for corporate control is impeded by regulatory restrictions on the transferability of shares.[13]

As in Germany, mutual cross-shareholdings between firms are generally permitted and commonplace in France. As a result, non-financial corporations own a weighty portion of the shares of listed firms (57.9%; see Table 3). The French network orientation is possibly less dominant in this respect when compared with Germany, because French companies can take cross-shareholdings only up to a limit of 10% and also subsidiaries may own up to 10%. In addition, a rather Anglo-Saxon feature of French corporate law is that concert parties that hold more than one-third of a company's capital are required to launch full takeovers (Franks and Mayer, 1990). However, as in Germany, interlocking directorships frequently accompany the cross-shareholdings (Moerland, 1995b) and there is an implicit agreement that cross-shareholdings are not used to launch unwelcome takeovers (Franks and Mayer, 1990).

In the Latin countries in general, performance-related executive compensation is not common. The only exception is France, where percentages of executive remuneration similar to those in the UK and Canada are performance-dependent (Abowd and Bognanno, 1995). On the whole, however, the Latin countries score low on this characteristic.

With respect to the stimuli to sustain long-term economic relationships, there is scant documentation on the Latin countries. In view of the reciprocal shareholdings, family ownership and government control it seems likely that long-term relationships are encouraged rather than disfavored by the institutional environment.

Japan

Japan – cultural corporate governance

Of all the countries examined in this paper, from a Western point of view the cultural dimension of the system of corporate governance is probably the most preponderant in Japan. The features of Japanese culture that probably have the most impact are the sense of "family" and the importance of "achieving consensus". As will be illustrated below, family values pervade all characteristics of the Japanese governance system. That is, the cultural tradition of familyism goes far beyond the scope of the blood ties indicating family control over firms in the Latin countries. In addition, relatively little emphasis is placed on litigation in Japan (ICMG, 1995). The Japanese governance system does, however, have a number of Anglo-Saxon traits. These are basically the result of the US occupation of 1945 to 1952 (Harrison, 1997).

Japan could be said to be the epitome of the countries where the institutional concept of the firm prevails. This concept finds expression in the large-scale presence of inter-corporate networks, the so-called *keiretsu*. They comprise almost half of the top 200 Japanese firms.[14] The six largest of these industrial groupings are Mitsubishi, Mitsui, Sumitomo, Fuyo, Dai-ichi Kangyo, and Sanwa. They involve companies that share the same names and logos and organize relationships among major financial institutions, trading companies and industrial producers (Orru *et al.*, 1989). Most of the *keiretsu* are both diversified and vertically integrated.[15] Large industrial companies (e.g. Toyota Motors and Hitachi) are in turn positioned at the apex of their own vertically linked groupings of smaller affiliated supplier and distribution firms (Aoki, 1989). Some of the *keiretsu* descended from the prewar family-centered holding companies, the so-called *zaibatsu* (e.g. Iwasaki, Yasuda, Mitsui and Sumitomo). Others were established after the war.[16]

The Japanese board system is rather complex. It comprises a board of directors, an office of representative directors and an office of auditors, which all have different responsibilities. However, Japanese companies frequently create an informal substructure of the board of directors. This results in a board of inside directors and outside members, which *de facto* resembles the one-tier board system in the USA and the UK (Aoki, 1984a; Corbett, 1994).[17] As in the Anglo-Saxon countries, the board is elected and dismissed by the general assembly of shareholders.

As in Germany, *employees* and *shareholders* are salient stakeholders that can substantially sway managerial decision-making in Japan. In this respect, Aoki (1984a) advanced a model in which the Japanese firm is presented as a coalition of the body of employees and the body of shareholders, integrated and mediated by the management acting to strike a balance between the interests of both parties. The influence of employees is related strongly to the cultural tradition of familyism. The concept of lifetime employment has become a well-known characteristic of the Japanese economy in the Western world, if not a myth.[18] Employees have a say in a considerable breadth of corporate affairs, such as wage determination, the way in which work is organized, and the way in which managerial choices are made that would affect the lives of the employees (Aoki, 1984b). Under the Japanese Commercial Code, the shareholders are viewed as important stakeholders. However, for cultural reasons their role is different from that in most Western governance systems (ICMG, 1995). As a group, the shareholders in Japan seem to make a long-term commitment to the *keiretsu* in which they participate. In contrast to especially the Anglo-Saxon countries, the "value" of the investments of shareholders seems to be considered as the sum total of a business relationship with another company, of which the stocks' voting rights, dividends and capital gains are only a part. The Japanese shareholders seem to own their securities for strategic purposes. Among these are the cementing of long-term business ties, the acquisition of new customers and the warding off of unwelcome outsiders. Shares are also held for symbolic purposes, in the sense that they are considered as a ticket of admission to the corporate network (Zielinski and Holloway, 1991).

As in Germany, large Japanese *banks* are salient influential stakeholders (other financial institutions are influential as well). They have traditionally had close relations with their customers (Harrison, 1997). The so-called city banks are the nuclei in the corporate webs of the *keiretsu*, which is partly historically determined.[19] The modes of influence of city banks stem from three sources. Of course, they supply the other group members with debt. As suppliers of debt, the banks have been playing a more important role than, for instance, in Germany. The level of debt financing in Japan is high by international standards (Corbett, 1994). Second, city banks are shareholders in members of the *keiretsu*. The individual equity stakes of Japanese banks in non-financial firms are smaller than in Germany. Largely as a result of the postwar US occupation, direct ownership by Japanese banks in non-financial firms is limited to 5% by the law (Harrison, 1997). On aggregate, bank shareholdings are somewhat more important in Japan than in Germany (see Table 3). In Japan both bank finance and banks' shareholdings have a very stable character. For instance, Hoshi *et al.* (1990) report that the main bank accounted for an average of about 22% of the firms' loans in a sample of 125 firms and that it held about 4% of the firm's equity on average. Third, city banks influence managerial decision-making by transferring their own staff members as both executive and non-executive directors to non-financial firms in the *keiretsu*.[20] Generally, banks sending directors to firms are shareholders, even when they are not the main bank (Corbett, 1994).

In terms of their sizes, stock markets play an important role in Japan's economy (see Table 2). Although the postwar US administration has contributed to this phenomenon, Japan's stock markets are the oldest in Asia (Harrison, 1997). There is no active market for corporate control in Japan, where achieving consensus is one of the cultural tenets. Hostile takeovers are considered as a curse (Moerland, 1995a).[21] The ownership structure in Japan also encumbers a market for corporate control. In the early sixties, when Japan was liberalizing its capital markets, a high number of managers of the typically large firms engaged in a "shareholder stabilization operation" (Aoki, 1989). As a result, the ownership structure in Japan is characterized by relatively stable cross-shareholdings between financial and non-financial companies (see Table 3). Ownership is more widely dispersed than in Germany, but the concentration is not as low as in the USA. The largest five shareholders in Japan own a significantly larger portion of companies than in the USA and the UK (33% versus 20–25%: OECD, 1997). However, a majority owner is found at a frequency similar to these countries (8% versus 10–11%), while in Germany a majority owner is found in about 25% of the cases (Prowse, 1995). The explanation for this phenomenon is that the cross-shareholdings in Japan are relatively small on a bilateral basis (as a rule of thumb, somewhere between 1 and 5%) and that the number of such ties is high, in particular in the *keiretsu* (Kester, 1992). For an elaboration of cross-shareholdings in Japan the reader is referred to Masuyama (1994).

Performance-related executive compensation is not widespread in Japan (Abowd and Bognanno, 1995). In fact, the issue of managerial remuneration is of much less interest to stakeholders than in many other countries (ICMG, 1995). In accordance with the prevailing concept of the firm in Japan and the role that shareholders play therein, there seems to be little necessity to align the interests of managers and shareholders by means of performance-dependent pay.

Even more so than in the Germanic countries, stakeholders in Japan seem to have a predilection for long-term and stable economic relationships. The *keiretsu* and the concept of long-term employment attest most notably to this observation. The institutionalized ties between stakeholders and the preponderant sense of familyism and consensus open the door to long-term engagements, while in the Anglo-Saxon countries such commitments might be inhibited by market forces.

Summary and concluding remarks

This paper started with the observation that debate on corporate governance in an international setting is impeded by the lack of a clear framework. Consequently, the establishment of a taxonomy of systems of corporate governance was the objective of this paper.

The taxonomy is based upon eight related, yet discernable characteristics: (1) the prevailing concept of the firm, (2) the board system, (3) the salient stakeholders able to exert influence on managerial decision-making, (4) the importance of stock markets in the national economy, (5) the presence or absence of an external market for corporate control, (6) the ownership structure, (7) the extent to which executive compensation is dependent on corporate performance and (8) the time horizon of economic relationships. For comparative purposes, systems of corporate governance prevailing in the industrialized countries can be divided roughly into "market-oriented" systems (Anglo-Saxon countries, e.g. the USA and the UK) and "network-oriented" systems. In turn, network-oriented systems come in distinguishable forms in the Germanic countries (e.g. Germany and the Netherlands), in Latin countries (e.g. France and Italy), and in Japan. The paramount characteristic of the market-oriented systems is an active external market for corporate control, which serves as a mechanism for shareholders to influence managerial decision-making in an indirect manner. By contrast, in the network-oriented systems oligarchic groups with different identities substantially sway managerial decision-making by more direct modes of influence. Especially the limited voting rights of independent shareholders, cross-shareholdings and interlocking directorships indicate the network orientation. The appraisal of the other characteristics of governance systems is strongly related to this overall difference between a stronger reliance on either markets or networks of relationships between stakeholders, as was illustrated in the course of the paper.

In view of the dramatically increased interest in corporate governance, it can be observed that changes are taking place in both the market-oriented and network-oriented systems. These developments seem to have a converging character and are likely to add some shades of grey to the black-and-white picture painted in this paper. The level of hostile activity at the market for corporate control in the Anglo-Saxon countries in "the roaring eighties" has been decreasing in the nineties. Diplomacy and persuasion by pension funds (e.g. CALPers) and other active institutional investors have been gradually substituting practices like corporate raiding and asset stripping. On the other hand, regulation by the European Union has been developing in a direction more favorable to independent shareholders. The proposal for the 13th Directive Company Law on Public Bids is quite similar to the UK City Code on Takeovers and Mergers. The role of banks in Germany and Japan is becoming less dominant. In Germany the banks' ownership of blocks of equity in non-financial corporations and their large numbers of interlocking board seats are subject to severe criticism of both policy makers and practitioners. The preponderance of Japanese banks is crumbling as a result of regulatory changes, massive losses on outstanding loans, and financial scandals. In the opposite direction, in the USA a long period of banking restrictions is likely to come gradually and partially to an end. Other developments, such as the globalization of competition and the institutionalization of investments, also seem to imply a growing convergence of governance systems (Moerland, 1995b).

It is difficult to predict accurately how the different national systems of corporate governance will evolve. The first reason for this observation is that both the market-oriented and network-oriented systems have been surviving over many decades. From an empirical point of view, there is no evidence to pinpoint the "fittest" system (see also Mayer, 1997). The second reason concerns the unpredictability of the consequences of policy decisions resulting from critical self-evaluations of domestic governance systems. As this paper hopefully has shown, each characteristic of a governance system is inextricably intertwined with others in the matured context of legal, institutional and cultural factors. Policy makers might thus fall into the trap of changing one system characteristic (e.g. liberalizing the regulations regarding takeovers) and underestimating the countervailing effect this could have on other characteristics (e.g. an increase in mutual cross-shareholdings). As a result, unbalanced policy decisions might yield an outcome contradictory to that intended (more closed corporations as opposed to more open corporations). The third reason to be cautious with foretelling is that we still know so little about the current governance systems, as Moerland (1995b) and Shleifer and Vishny (1997) also conclude. In this respect, the taxonomy proposed in this paper might help to structure governance research in an international setting.

Regarding further research, a first recommendation is to qualify and quantify each of the examined characteristics more extensively per individual country. Second, attention should be devoted to the development of a theoretical framework combining insights from economics, sociology and psychology to improve methodical comparisons of governance systems. This could also pave the way to the constructive linkage of the taxonomy to relevant issues such as (national) economic development, judicial constraints, and board effectiveness. Third, the current taxonomy should be protracted with newly industrialized countries and developing countries. Furthermore, new characteristics of governance systems could be added to the current classification.

Notes

1. During one of the fruitful discussions at the International Research Seminar on Corporate Governance and Direction held at Henley Management College, England, on 11 and 12 June 1997, the need was emphasized for a taxonomy of systems of corporate governance. The authors are grateful for the stimulating input of the participants at the seminar, as well as for the financial support of ABN Amro Bank to conduct this research.

2. By far, most corporations are privately held and remain so during their lifetimes. Only a tiny fraction of firms have become listed on a stock exchange. On a worldwide scale, at most 20,000 firms are publicly held, while many millions of private corporations exist. However, their economic importance is disproportionately high because of their size, scope, and impact. In addition, the availability of public data is greater in the case of listed corporations (Moerland, 1995b).
3. The Securities Exchange Act ("the Act") imposes relatively strict and detailed disclosure rules. The Act requires that every officer or director of a firm with an equity security and every person who is directly or indirectly the beneficial owner of more than 10% of any class of equity security file a report of his holdings to the Securities Exchange Commission (SEC) and to the exchange on which the security is listed, whereas the disclosure threshold for organizations is 3%. Special reports must be filed if any change in holdings take place. The Securities Investor Protection Act provides protection against financial loss to shareholders resulting from brokers or dealers who fail. The Insider Trading Sanctions Act provides the possibility of seeking civil penalties whenever it appears to the SEC that a person has violated a provision of the Act by dealing in a security while in possession of material non-public information. Under the "lead plaintiff" provision of the Private Securities Litigation Act, large shareholders can seek to be named controlling parties in class-action shareholders lawsuits.
4. The cornerstone of the Company Securities Act and a number of regulations governing substantial acquisition of shares is that shareholders should be "fairly" treated. The Company Securities Act places limitations on individuals who are connected with a firm from dealing in listed securities when they are in possession of price-sensitive information. The City Code on Takeovers and Mergers lays down general principles of good standards of commercial behavior to be followed by the parties involved in a takeover transaction. It also contains detailed rules designed to ensure that all shareholders of the target firm are treated similarly by an offerer and are given sufficient information and advice to reach a properly informed decision, and that the board of directors of the target firm takes no action to frustrate an offer.
5. The general line of reasoning in the Anglo-Saxon countries is related to the "improved management hypothesis", which was advanced by Manne (1965): when the incumbent management fails to achieve the performance that could be expected from them, an incentive exists for a takeover of the firm by a management team who believes itself to be able to extract relatively more value from it. According to the improved management hypothesis, even if no takeover actually occurs, the mere possibility disciplines managers who want to avoid a takeover to act in the interest of the shareholders, that is, to create wealth for them by increasing the value of their investments. In line with Manne's (1965) reasoning, Jensen and Ruback (1983) regard the market for corporate control as a component of the managerial labor market. Jensen and Ruback (1983) define the market for corporate control as "the arena in which alternative management teams compete for the rights to manage corporate resources, with stockholders playing the relatively passive role of accepting or rejecting offers from competing management teams" (p. 6). From the Jensen and Ruback perspective, it is not the group of shareholders that should be regarded as the primary actor on the takeover market, but rather the competing management teams.
6. The only recorded cases of attempted hostile domestic acquisitions in Germany are Klages takeover of Zellstoff-Waldhof in the mid-sixties (Mayer and Alexander, 1990) and the attack of Flick Industrieverwaltung on Feldmühle Nobel in the early eighties (Franks and Mayer, 1990).
7. Dutch firms can issue non-voting shares, preferred shares, and priority shares. The latter ones are non-tradable, but have statutorily fixed prerogatives relating to, for instance, the nomination of executive board members and their compensation, the issuance of shares, and additions to the reserves. Swiss firms are authorized to have bearer shares outstanding with a lower nominal value and a correspondingly lower voting power than registered shares. Shareholders that are deemed unwelcome cannot even buy registered shares without the voting rights (Horner, 1988). In addition, Sweden, Norway, and Finland do not allow foreigners to have more than a minority of a firm's shares (20 to 40%) and may limit the voting power to an even lower percentage. Swedish firms might issue A shares (for inhabitants, carrying one vote) and B shares (for foreigners, with a severely diminished voting fraction). Danish firms have one type of shares with enhanced voting power (up to ten times), which are tightly held by family-controlled foundations. The other type, B-shares, may be held by domestic inhabitants and foreigners alike (De Jong, 1989).
8. The UK had a comparable regulation that was modified recently as a result of the design of the EU Banking Law. In addition, until 1994 it was characteristic of US banks that they were not allowed to perform banking activities outside their home state, apart from agreements made on the federal level. In September 1994 the Riegle-Neal Interstate Banking and Branching Efficiency Act, which allows banks more latitude in performing their cross-state activities, replaced this Interstate Banking regulation. Roe (1990) gives detailed information on the restrictions imposed on the portfolios of banks and other financial institutions in the USA.

9. In addition, banks can loan their voting rights to another bank that specializes in a particular industry (*Leihstimmrecht*). Furthermore, ownership by banks tends to increase with the size of the corporation they invest in (Kester, 1992), so that their "weighted" potential influence is relatively high.
10. In a study of Germany's 325 largest industrial and financial firms, Ziegler *et al.* (1985) found that banks displayed the greatest number of links where supervisory board members of two different firms worked with each other on the *Aufsichtsrat* of a third firm. Deutsche Bank had by far the largest network, affecting 239 firms through these links and links where it had seats on the board of two or more different firms.
11. In Germany, the process of industrialization commenced in the second half of the last century, much later than in the USA and the UK. The industrial revolution in the USA and the UK was financed by a broad cross-section of private individuals willing and able to make equity investments, paving the way for a market-oriented governance system with efficient capital markets and dispersed ownership. In particular at the end of both world wars, a comparable source of finance was not available in Germany. Consequently, banks had to assume an active role in both granting credit and injecting equity capital (Schneider-Lenné, 1994). In addition, in the course of time some of the outstanding credits were converted into bank-held shares to assist reconstruction (Dyson, 1986). These network-oriented developments are illustrated by the long list of actions in which German banks have deprived "predators" of taking over a target firm through concerted action and instead have imposed their own solutions. Examples are the cases of Süddeutsche Chemiefaser, AEG, Klöckner & Co., and Nixdorf (De Jong, 1989).
12. For instance, in France two employee representatives may attend board meetings, but have no voting power. Trade unions do not have to be consulted about a merger, but in firms with more than 50 employees they can attend meetings between employers and employees. Workers' counsels are informed about bids but have no power to block them (Franks and Mayer, 1990).
13. Listed companies may limit this transferability by contract, articles of incorporation or establishment of private companies that hold a group of shareholders' capital. Market illiquidity is further increased by the regulation that shareholders that have held shares for a specified period may be entitled to double votes (Franks and Mayer, 1990).
14. The majority of firms listed at the Tokyo Stock Exchange are part of a *keiretsu*. In March 1991 they were responsible for 58% of all listed corporations' sales excluding financial institutions, 39% of net income, and 35% of net assets (Zielinski and Holloway, 1991).
15. For example, the Mitsubishi Company was established in 1870 and gradually expanded into related businesses, such as trading (Mitsubishi Corp.), casualty insurance (Tokyo Marine and Fire Insurance), warehousing (Mitsubishi Warehouse), shipbuilding (Mitsubishi Heavy Industries), and banking (Mitsubishi Bank).
16. The Kenkyusha's Japanese-English dictionary (1987, p. 778) translates a *keiretsu* and its related meanings as "a system; an order of descent; succession; a series. Serial correlation. The systematization of enterprises". *Zaibatsu* and its related meanings are translated as "a financial combine [group, clique]; a big business; the plutocracy; the plutocrats; a giant family trust" (p. 2037). The singular and plural forms of both words are the same.
17. The formal responsibility of the board of directors is to *make* managerial decisions. The office of representative directors is responsible for *executing* the decisions of the board of directors. The office of auditors has the task to supervise (or audit) the activities of both the directors and the representative directors. In so far as the function of the office of auditors is separated formally from the board of directors and the office of representative directors, the Japanese board system resembles the board system in Germany and the Netherlands. In relation to the informal substructure Japanese companies frequently create, Corbett (1994) contends that "the board is (...) hierarchically ranked rather than functionally divided" (p. 320). In addition, she argues that the most striking difference with the Anglo-Saxon board system is that most of the executive directors will have formerly been middle managers who were promoted from the outside.
18. In this respect, Aoki (1984b) notes that that it is more correct to refer to the stable relationship between the firm and its employees as long-term employment instead of lifetime employment. In addition, the long-term employment is assured for male employees with a relatively high functional position at larger firms, but not for the majority of workers.
19. Shortly after World War II, the US administration in Japan dismantled the *zaibatsu* by selling the shares then held by the families to the general public. In accordance with the widely dispersed ownership in the USA, no individual was allowed to acquire more than 1% of any company in this liquidation operation. In 1947 the Japanese parliament passed an US-based Anti-Monopoly Law. As in the USA and in contrast to Germany, the Japanese banks were kept out of the securities business as part of this law. However, in the post-war era Japanese firms re-established their old ties through what was, in effect, a share buy-back process. The regulatory framework imposed by the US administration turned out to be unable to prevent the gradual reformation of corporate grouping. The reformation process was initiated and coordinated by the city banks (Aoki, 1989). In 1991, Japanese firms (both financial and non-financial) held 70% of all outstanding stock, approximately the same

degree of ownership by individuals in 1949 (Zielinski and Holloway, 1991; see also Table 3). As a result, the *zaibatsu* seem to have been revived in another form during the post-war period, but instead of families the city banks now control them. The cultural tradition of familyism played a significant role in preventing the US administration from establishing the reforms they had intended. In the words of a Japanese executive: "Because one parents are dead, one is not prevented from continuing as before with one's brothers and sisters. What could be more natural than the brothers and sisters of a family helping each other to keep going as a group?" (*Oriental Economist*, 1959, cited in Gerlach, 1992, p. 109).

20. Several reasons may underlie such transfers. They include managerial reorganization when the non-financial firm has been performing poorly, the finding of an equivalent status position when a senior member of the bank staff is passed over for promotion in the bank, or the nearing of retirement of a bank staff member (Corbett, 1994).
21. Regarding the relation between the *keiretsu* and the market for corporate control, Nakatani (1984) contends that "the primary purpose of group formation seems to be the sharing of risks and profits among group members by which stabilization of corporate performance is enhanced, but it is also important to note that group formation makes it possible for individual firms to insulate themselves from the imperatives of market forces, particularly of the capital market" (p. 245).

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