Monitoring Functions in Corporate Governance: A Case Study of a Japanese Department Store

Norihisa YOSHIMURA[a)]
Tomonaga HORIGUCHI[b)]

Abstract

This paper first clarifies two major views of the corporation, the first of the firm as a kind of instrument and the second as a part of a social system. It then investigates the effect such differences have on corporate governance. Based on this research, the paper examines corporate governance through the role of employees in order to reveal the multifarious forms assumed by governance. It particularly focuses on corporate governance in Japanese joint-stock companies and reveals the diverse forms that corporate governance can take, including not only the monitoring functions of the main bank, described as one of its main features, but also cases where company employees exert their monitoring power on the corporation.

1. Introduction

The deterioration of a company's management can give rise to significantly negative changes, including broken off contracts with clients and discontinued products and services. It furthermore leads not only to cost-cutting expenditures that further curtails bonuses and wages, but also engenders circumstances that threaten the very foundations of employee living conditions, such as company consolidation and reorganization accompanied by voluntary retirement offers and contract termination for contract workers. In order to avoid this kind of situation, corporate managers must, as Kagono et al. says, exert ceaseless effort towards "better company management" (Kagono et al., 2010, p.3) at all times. In other words, considering the actual damages suffered by stakeholders in a managerial crisis, a company must constantly aim to be a going concern, as noted by Commons (1931).

Corporate executives, however, are neither omniscient nor omnipotent, and they may miscalculate future circumstances or err in their managerial judgment. Furthermore, personal

a) Wakayama University
b) Kyoto University of Foreign Studies

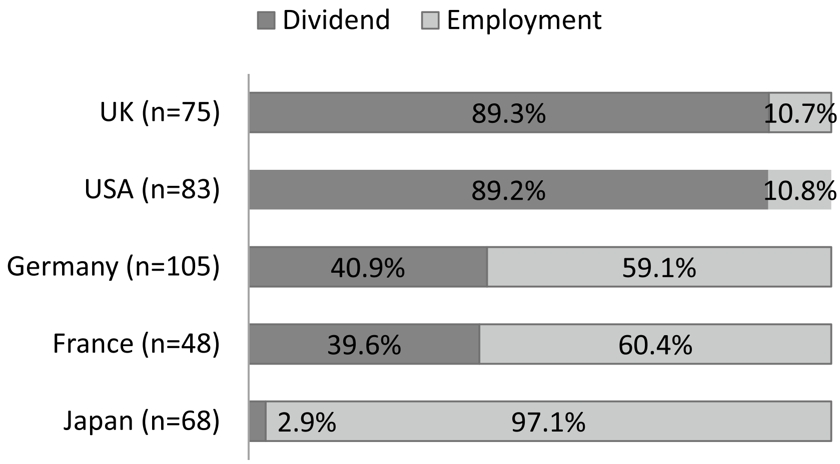
egoism may distort managerial decisions, and managing executives may be the ones responsible for inflicting financial damage to the company. Discussions on corporate governance thus focus on company performance and the accompanying selection and dismissal of corporate executives. More specifically, the point at issue in corporate governance is, as Dore states, "systems and practices related to the selection of chief executives such as the chairman, president, CEO and COO, the evaluation of their performance, the offenses that cause them to be driven out, and the procedures for achieving it" (2006, p.2). Dore's point is presumably very clear, however, reality is that notions of an ideal corporate governance conflict based on differences such as who or what a company exists for. This paper first clarifies the aforementioned point and investigates the effect such differences have on corporate governance. It then focuses on corporate governance in Japanese joint-stock companies and reveals the diverse forms that corporate governance can take, including not only the monitoring functions of the main bank, described as one of its main features, but also in cases where company employees exert their monitoring power on the corporation.

2. Discussions regarding corporate governance

2.1. Diverse views of the corporation

Views of the corporation can be roughly divided into two major trends. The first views the firm as a kind of instrument and the second sees it as part of a social system. One of the most representative arguments given for the former view is by the German economist Gutenberg. According to Gutenberg, the organization simply exists as a means of achieving certain goals (1951). This understanding ultimately converges onto a view of the corporation as an instrument for its members (Yoshida, 1976). On the other hand, Drucker's arguments can be considered representative of the latter view. In 1932, prior to Drucker, Berle and Means had pointed out that corporate conglomeration had come with a separation of ownership and management that was realized in the United States post WWI. Following this line of thought, Drucker states that, rather than pursuing only profits, corporations must fulfill a "specific social function" as entities separate from entrepreneurs and shareholders (1974, p.37). Cyert, Macrch and Simon further posited a view of the corporation as an association composed of managers, employees, labor unions, shareholders, suppliers, distributers and consumers, emphasizing the corporation's functions as a cooperative body (Macrch & Simon, 1958, Cyert & Macrch, 1963, Kagono, Sunagawa & Yoshimura, 2010). In Germany, Schmidt also expands upon the same argument (1969).

Figure 1



Source: Yoshimori 1993 p.36

In general, the view of the corporation as an instrument owned by shareholders is especially strong in the U.K. and U.S., while the view of company systems takes strong hold in the European continent and in Japan (Kagono, Sunagawa & Yoshimura, 2010). This idea is confirmed in Yoshimura's studies. Yoshimura conducted a survey with executives regarding whether they would prioritize employment or dividends in the event of a managerial crisis. A large difference was observed in trends between the U.S./U.K. versus Germany/France/Japan (Figure 1) (1993), with management in American and British companies clearly emphasizing the shareholder. Taking account of such circumstances, Albert separated capitalism into a few different categories, one of which he called the Anglo-American model and another which he called the Rhine model (1991).

In reality, corporate management does not exclusively assume either the instrument hypothesis or the social-system hypothesis, completely ignoring one or the other. Rather, as can be seen in the example of Starbucks – the American company that allotted funds to health insurance for part-time workers who worked over 20 hours a week and their families, despite opposition from some of their shareholders – corporate management generally involves a compromise of the two. However, the trends established by these different views of the corporation constitute gaps in directions taken by corporate governance research.

2.2. Corporate governance research in light of the different views of the corporation

In the view of the corporation as the shareholders' instrument, the shareholders' ownership of the firm is emphasized. Thus, actions are sought to provide profit to the shareholders who own these rights. In many cases, the favored form of management is to maximize dividends and market capitalization as much as possible.

As explained earlier, with the rising tendency to separate ownership from management that accompanied corporate conglomeration, executives came to control companies in a "managerial revolution" as Burnham had predicted (1941). The question then became whether or not these corporate executives, who only manage the shareholder-owned agency, operate the company in a manner considered appropriate by these owners. The Agent Theory, outlining the behavior and relationships between shareholders, creditors and corporate executives, is an attempt by Jensen and Meckling to investigate this issue (1976). The Agent Theory has continued to maintain a certain level of influence and much research has been done on it to this day. In the United States especially, stock options are granted to corporate managers as a means of controlling the moral hazards that could be inflicted by executives who act simply as agents. For this reason, much research has been done on company dividend policies and corporate governance (Dittmar & Mahrt-Smith & Servaes, 2003; Silva & Goergen & Renneboog, 2004; Harford & Mansi & Maxwell, 2008). Such research has revealed that good corporate governance occurs when a company maintains highly positive cash flows (it must be noted, however, that "good" corporate governance in this case is determined from the view of the corporation as the stockholders' instrument). At the same time, wide disparities have also been pointed out between different countries. In the U.S. and U.K., dividend policies are geared towards major shareholders, there is little change in the dividend sum per share, which is more or less fixed. In Germany, dividend policies are geared towards the bank, and while approximately 50% of profits are allotted to dividends, this amount changes based on financial conditions (Da Silva & Goergen & Renneboog, 2004, p.158).

On the other hand, in the social-system hypothesis, companies are understood as elements that constitute a society. Corporate governance, in this sense, is oftentimes explained within the context of maintaining social order or contributing to the development of social equality. In this line of thought, discussions evolve around roughly two points: 1) the pros and cons of commitment by stakeholders other than shareholders and corporate executives (such as employees) in corporate governance and 2) the pros and cons of incorporating CSR (Corporate Social Responsibility) into the criterion of corporate governance.

In terms of the first point, the Co-determination Act in Germany grants elected employee representatives the right to engage in company management to a certain degree. Due to such conditions, v. Werder, a prominent researcher on corporate governance in Germany, defines corporate governance as a framework for legal, practical order in the management and supervision of corporations (v. Werder, 2008, p.1). Likewise, in the U.S., the AFL-CIO (American Federation of Labor and Congress of Industrial Organizations) exerts influence in providing profits to employees (Ashwini, 2012). Because employee, labor union and shareholder profits conflict at times, co-determination in German companies, and especially its use in the supervisory board, is criticized for delaying managerial decision-making (Hans-Böckler-Stiftung, 2004, p.10). However, this was not the case according to a survey we conducted in Germany (paper currently in progress), and co-determination was not always found to get in the way of managerial decision-making. Rather, some cases proved that co-determination supports decision-making and implementation on the part of corporate executives.

Regarding the second point, introducing the concept of CSR into corporate governance and supporting the involvement of various stakeholders, such as stockholders, banks, customers, suppliers, employees and the community, is considered to provide for better management (Mason & Simmons, 2014). However, because the simple introduction of CSR activities and their concepts into management will not always result in a match between a corporation's financial profits and social contributions, Porter explains that what is of importance is the establishment of a "created shared value" for generating both financial and social value (Porter & Kramer, 2011). And in light of such trends, many multinational enterprises guarantee commitment to management through the establishment of a CSV Council that includes external membership.

As described above, studies on corporate governance have been made from a variety of standpoints. While the ideal form of corporate management described by such studies all differ in nature, no matter what the management method demanded, what is important is how to appropriately monitor the performance and behavior of executives and their management of the corporation.

2.3. The viewpoint of the corporate governance research in this paper

Based on these researches, this paper will examine corporate governance through the role of employees in order to reveal the multifarious forms assumed by governance. In addition to arguments that emphasize the heretofore undermined roles of the shareholder and (independent) outside director,[1] this paper aims to further reveal a different path to examining the state of corporate governance.

Regarding research from this perspective, Nitta has argued that focus should also be directed at roles of players other than main banks: "It is possible to identify employees as one of the actors that actually monitor executive managers in Japan and drive out the low-achieving ones. In some cases, company unions act on behalf of these employees. Such research has seldom been conducted" (Nitta, 2003, p. 206). Indeed, there is little proof that further research has been conducted even to this day (Koike, 2015). This paper assumes the assignment of top management positions to be the central issue of governance (Ito, 2015) and Dore's opinion.

3. Focusing on the role of employees: Why Mitsukoshi is discussed as an example

3.1. The common understanding of the dismissal of Mitsukoshi's president – The role of the main bank

It goes without saying that the role of the main bank (or the role said to be assumed by the main bank) in the appointment, dismissal and monitoring of Japanese corporate managers has been the subject of a great deal of attention (Tanaka, 2014; Arikawa & Miyajima, 2015).

The following discussion examines the details of Shigeru Okada's dismissal from his office as president of Mitsukoshi (present-day Isetan Mitsukoshi) on September 22, 1982. This incident is considered "the most dramatic" (Nitta, 2003, p. 206) example of an executive's retirement from a corporation in Japan. From a corporate governance perspective, it has been discussed as a representative case demonstrating the main bank's monitoring functions.

The prologue to the book *Dokyumento shachō kaninin (Document of a President's Dismissal)*, based on interviews conducted by The *Nihon Keizai Shimbun,* mentions Gorō Koyama (Mitsukoshi director, Mitsui Bank) as the central figure of the anti-Okada faction in Mitsukoshi. Mitsukoshi's main bank at the time was Mitsui (the present-day Sumitomo Mitsui Banking Corporation). The bank is considered to have played an immense role in the incident, as it had dispatched Gorō Koyama as Mitsukoshi's outside director and his role attracted considerable attention.

Koyama was actually responsible for filing the demand for Okada's resignation. However,

1) The obligation to justify the reason for not having an outside director was incorporated into the revised Companies Act in 2015.

Okada refused the demand and because of this, Koyama devoted himself to collecting opinions from the so-called "anti-Okada faction," including the executives of Mitsui's group companies and those from within Mitsukoshi. A public demand for Okada's resignation was then later issued by the Mitsui Group. It has been said that it was due to such efforts exerted by Koyama that a motion was made and approved at the Board of Directors meeting to dismiss President Okada from his post. And this sequence of events was what credited this incident as an example of the main bank's monitoring function and the outside director's influence, leading to the *Nikkei Sangyo Shimbun*'s conclusion that "the dismissal of Mitsukoshi's president, Shigeru Okada, in 1982 was the result of an effort led by the Mitsui Group" (May 19, 2010).

3.2. A new perspective on the dismissal of Mitsukoshi's president – The role of employees

As demonstrated above, the main bank's role in the decision has often been emphasized. Nitta however, reveals an understanding different from the norm. According to documents left by "someone in a position to gain good knowledge of inside information ... the main actors concerning the President's dismissal were the inside directors and high-level managers" (Nitta, 2003, p. 206). According to Nitta, the employees' efforts largely influenced the President's dismissal and "the main bank only played a supplemental role. It must further be pointed out that one of the most important comments representing the apprehension felt by the employees came from the labor union" (Nitta, 2003, p. 206).

Nitta (2003), however, gives no detailed analysis of the Mitsukoshi incident. Thus, in order to understand the role of employees in corporate governance, the following section will look into the details of the incident based on the book by Mitsugu Kawamura (1985), a legal advisor to Mitsukoshi "in a position to gain good knowledge of inside information."[2)]

2) Kawamura had been a renowned expert on the Companies Act, having long authored each revision of the *Kabunushi sōkai sōtei tōmon shū (Collection of Anticipated Questions and Answers at General Stockholders Meetings)*, an authority on measures to be taken at general stockholders meetings. It is an indisputable fact that Kawamura was an important figure in the drama surrounding President Okada's dismissal, with the ability to fully gain inside information into the matter (Kawamura et al., 1994; Miyazawa, 2007). Yoshiaki Sakakura, who was considered a rival by President Okada and was forced by Okada to leave the company (to later become the president of the Seibu Department Stores and then return to Mitsukoshi to become president and chairman), has written the following about Kawamura in "Watashi no rirekisho (My Life History)" (published in the morning paper of the *Nihon Keizai Shimbun* on November 19, 1997): "Mr. Kawamura actively worked to oust Okada from the company even after I had left Mitsukoshi. This led to Okada's dismissal nine years later in '1982."

3.3. Details of the Mitsukoshi president's dismissal

Mitsukoshi was founded in 1673 by Hachirobei Takatoshi Mitsui. Takatoshi came to be known as the founder of the Mitsui family, the predecessor to the pre-WWII Mitsui Zaibatsu and post-war Mitsui Group.

Mitsukoshi, a prestigious company that antedated Mitsui Zaibatsu and the Mitsui Group, started off with the slogan "genkin kakene nashi (cash sales, no bargaining)," singlehandedly leading the revolution of the department store business model in Japan. In 1904, Mitsukoshi became Mitsui Gofukuten Co., Ltd. and made its "Department Store Declaration" to become the first department store in Japan. Mitsukoshi's business management model would go on to become the standard for other department stores to follow for years afterwards. Mitsukoshi set its goals high — to become the Harrods (London) of the orient — and devoted itself to developing its stores accordingly, introducing a modern management system in the process. These efforts paid off, and Mitsukoshi became one of the leading companies in the industry and within the nation.

As time passed, however, its performance came to fluctuate widely. Other department stores had gained the ability to run abreast with Mitsukoshi and a new form of retail, the supermarket, had emerged. The root of the problem, however, was internal and was spurred by Shigeru Okada's assumption of the office of president in 1972. Okada, who had authored the book *Sōzō suru keizai (Creative Management)*, had been heralded as a sort of idea man both from within and outside the company. As the idea of "*mono banare* (declining affinity towards material commodities)" spread, Okada pushed forward on the commercialization of culture and was the first to take on the work of installing cultural centers, theaters and a sales floor for sporting goods in the department store. Other department stores would later follow suit.

However, Okada's business approach was oftentimes criticized for being too authoritative or chaotic. His style was to act arbitrarily without consultation, even on important matters. The matters that he undertook were also heaped with problems. For instance, as part of the main business, he championed a "business model for youths" in an effort to develop a new customer base. This, however, did not lead to the expansion of the company's clientele; on the contrary, it only distanced its regular patronage. Likewise, Okada further set out on projects that markedly differed from the store's regular line of business, such as the sales of holiday villas, an endeavor that also did not result in success.

On top of this, Okada's behavior also raised many compliance issues. For instance, he granted a special position to a woman with whom he was intimately connected, selecting her company as one of Mitsukoshi's suppliers and making Mitsukoshi stock products in qualities and quantities that could not possibly be expected to be sold. In other words, he contrived to wrongfully provide massive profits to this woman's company. This woman would later be arrested for tax evasion and breaching the income tax law and would be sentenced to prison.

Okada treated Mitsukoshi as if it were his own possession and became an intolerable figure to the company's share and stakeholders. While there were some executive and middle managers who did not submissively follow President Okada's orders, they were demoted or forced to leave the company by President Okada (but, highly competent in their jobs, they were quickly recruited by other major retail companies). As a result, the Board of Directors at Mitsukoshi came to be composed of President Okada's "protégés," consolidating his dictatorial regime as firmly as a rock.

However, in 1982, ten years after his appointment as president, a series of events occurred that would shake the foundations of the Okada regime. First of all, profits widely dropped for the February settlement period that year, and Mitsukoshi's business profits dropped in one sweep from first in the industry to third. This caused the business' downturn to suddenly surface to the fore. The company, which had been debt free up until the 1980s, was suddenly looking at a debt of 15 billion yen by its midterm settlement in August the following year. By the end of 1981, this debt had increased up to 23.9 billion yen.

At the same time, on June 17, a settlement was reached on Mitsukoshi's anti-trust violations that had been under scrutiny by the Fair Trade Commission. This incident had been a battle spanning over three and a half years, since the Fair Trade Commission had conducted an on-site inspection of the Mitsukoshi main shop on the grounds of an alleged violation of the law in November 1978.

At the time, Mitsukoshi had ranked first in sales in the department store industry and even ranked second in the entire retail industry. Mitsukoshi thus prided itself on its highly trusted status as one of the most distinguished department stores in the country. And because of this, many businesses were extremely eager to work with Mitsukoshi. What the Fair Trade Commission problematized was the allegation that Mitsukoshi was taking advantage of this situation to force unfair deals from its suppliers, for example, by pressuring sales or requesting funding. The issue that they were dealing with was coercion towards businesses that were eager for deals with Mitsukoshi. Based on such facts, the Fair Trade Commission declared the violation of the Antitrust Law Article 19 (which bans unfair business practices) the following year, in April 1979, and a cease and desist order was sent to Mitsukoshi.

Mitsukoshi declared non-consent towards this cease and desist order from the Fair Trade Commission. They took their argument to court, stating that there was no proof of pressured sales and that the department store was not on unfair grounds with their suppliers. The court began its hearing in June 1979 and this battle with the Fair Trade Commission lasted over three years.

While Mitsukoshi consistently refused to acknowledge violation of the Antitrust Law during court hearings, the litigation came to an end in the form of a consent agreement. In this consent agreement, Mitsukoshi, the company that had raised objections to the cease and desist order from the Fair Trade Commission, acknowledged and accepted its violation of the Antitrust Law. In other words, Mitsukoshi retracted its own claim. While Okada objected to this admission, Mitsukoshi's consent was founded upon its fears of further damage to its corporate image.

3.4. The dismissal of Mitsukoshi's president – The cry of "why?" at the Board of Directors meeting

The anti-trust law violation incident drew to a close with the consent agreement in June 1982. However, events that shook the Okada regime continued to occur. In July the following year, sales dropped by 5.2% compared to the same month the previous year, marking the greatest drop in the department store's history. This was announced in mid-August and by the end of the month, newspapers reported suspicions of a forgery in an exhibit of ancient Persian treasures, held at the main store in Nihonbashi. Just as the newspapers had reported, half of the treasures were indeed discovered to be fakes soon thereafter. On September 10, it was further reported that Mitsukoshi's ordinary income had dropped dramatically in August's midterm settlement to approximately 3 billion yen, half of what it had been the previous year.

The Okada regime, described as "authoritarian,""chaotic" and engaged in the "misappropriation of company property," was finally brought to an end on September 22. Mitsukoshi's regular Board of Directors meeting was held that day with the participation of 17 top executives, including Okada, and 4 auditors. After deliberations on five other matters, the managing director, who had been considered a close advisor to Okada, submitted a demand for the President's dismissal. Okada was shocked at this proposition from one of his close advisors and blurted out "why?" The case, however, was quickly put to vote. The result was 16 for and 0 against Okada's dismissal (not counting the President himself). It is said that Okada raised his voice in another cry of "why?" at how such a decision could be reached at a Board of Directors meeting filled with his own protégés (Okada, 1984).

Ousted from his 10-year long post as the company's president, Okada was reassigned to the position of "non full-time executive." According to Mitsukoshi's directors, this drama had been staged through careful planning going back two months. With the help and instruction of outside director Gorō Koyama, an advisor to Mitsui Bank, the directors had set their sights on the Board of Directors meeting scheduled for September 22 (Sato, 2007, p. 31). As this account describes, the main bank was understood to have assumed an important role in this scheme.

4. The multifarious forms of corporate governance – Roles of the employees

4.1. The role of employees in the dismissal of Mitsukoshi's president

While the main bank's role was highlighted in the description of events above, as the aforementioned statement suggests, the "drama had been staged through careful planning" and Koyama was not the only actor involved. Kawamura, an insider into the matter, reveals a different kind of movement (Kawamura, 1985).

Kawamura was the second generation from his family to act as legal advisor to Mitsukoshi, and did not see eye to eye with Shigeru Okada. For this reason, he was kept away from the company during Okada's regime. Kawamura, who largely questioned Okada's managerial stance, believed the President's dismissal to be an urgent and important matter for Mitsukoshi. He thus committed himself to exposing Okada's denounceable acts, such as his deals with other businesses, as pointed out by the Fair Trade Commission. Gradually, those from within the company who agreed with Kawamura gathered to his side.

Kawamura set foot into the Board of Directors meeting shortly after the decision had been reached to dismiss Okada from his post. This was because objections regarding the validity of this decision were anticipated from Okada, who was chairman of the board. Okada did indeed voice his objections. However, Kawamura was there to explain that there were no legal problems with the demand. What made this possible was his link to some of the middle managers in the general affairs division who acted as administrative officers to the Board of Directors. They had held many meetings with Kawamura to map out a plan so that the President's dismissal would be approved smoothly at the Board of Directors meeting. It was initially anticipated that Kawamura's entry into the Board of Directors meeting would be difficult, as the entrance would likely be blocked by Okada's supporters. This problem was cleared, however, with the blockade broken up by those in the general affairs division to lead Kawamura inside.

This series of events did not occur on Kawamura's bidding. Rather, it was the middle managers who started the movement. They had tried to connect Kawamura to the activities of the anti-

Okada faction working behind the scenes. Just as the middle managers in the general affairs division had worked alongside Kawamura, there were also others who were unhappy with the situation and were working towards its resolution. To quote Kawamura:

"I had been secretly approached at the time by a certain group of younger company members. Many of the younger personnel felt a sense of impending crisis towards the current situation faced by Mitsukoshi. And a few of these members, representing their concerns, brought the matter to discuss with a senior of theirs from outside the company. This senior and I had coincidentally been on familiar terms for a long time and he suggested, 'there's a person called Kawamura who I've been very close to, who acts as legal advisor to Mitsukoshi. He's been very critical of President Okada and seems to have not been on very close terms with Mitsukoshi recently, but try talking to him once.' That's how he drew them to me.

Looking back on my diary from the time, it was the night of March 31, the day before I met up with general manager Inoue, that I met with these younger members. After meeting up with [our mutual acquaintance], I listened to their ardent case the whole night through at a certain place that will remain unnamed. What they told me was the following: 'we had prided ourselves on having entered such a prestigious company as Mitsukoshi and had devoted ourselves to our work. But Mitsukoshi's trust has recently fallen in the eyes of the public. The public has been devastated and our business has now simply been on a decline. We have to stand up to protect our jobs and the company's glorious tradition. So what should we do to achieve this goal?'" (Kawamura, 1985, p. 146).

"From the time," meant 1982, the year when the President was dismissed. General manager Inoue was the executive and general manager of the general affairs department who was being promoted within the company at the time. This action on the part of the employees largely supported Kawamura and the inside directors who supported him and helped to urge them on in their case. Kawamura describes the matter as follows:

"I was deeply moved by [these younger company members'] overwhelming love towards Mitsukoshi and their sincere concern over the company's future. This renewed my resolution that, 'as long as there are so many young employees like this in the company who are willing to work hard, Mitsukoshi will not die out. It mustn't. I must fight tooth and nail for their sake, too.' We parted ways with me agreeing to consult with them on any matter from then on" (Kawamura, 1985, p. 146).

While few in number, there have been others apart from Kawamura who have pointed out movements of the middle management towards the President's dismissal. The following statement was made by an anonymous employee at Mitsukoshi:

"We started to take action towards the President's resignation from late last year [1981]. We gathered together trustworthy members, chiefly those in managerial positions, and leaked scandals related to President Okada to the press. The group included ten of us and not a single executive" (*Nikkei Business*, October 18, 1982, p. 259).

The labor union had also made its own contributions that would lead to the President's dismissal. The Mitsukoshi labor union, long ridiculed as a "company-dominated union," had also risen up to urge the President to resign, speaking for the dissatisfaction and sense of crisis spreading among the employees. On September 13, a little before President Okada's dismissal, they organized a statement "to protect [their] lives and [their] jobs." In it, they demanded the President's resignation using indirect expressions such as the "reform of the management setup" and a "clear delineation of responsibility." Additionally on September 21, the day before Okada was ousted, the union posted a bulletin in the company stating, "What we expect from management is that executives sincerely understand our general will and make decisions on management reforms with goodwill as members of Mitsukoshi."

The actions of the labor union, including such public declarations, are said to have aided the move to dismiss the President. Kawamura stated that Mitsukoshi labor union leaders were forced to make a difficult decision regarding how the union would step in on the issue of company management and evaluates this movement as follows:

"The leaders of the union likely struggled largely over the issue of how to aggregate the opinions of its members and maintain their solidarity while simultaneously applying pressure on company management towards self-purification.

Nemoto, the chairman of the union at the time, was quite a fearless samurai. Blessed with a number of resourceful generals like Kishigami, the chairman of the main store, he meticulously caught on to the ever-changing conditions of the company management and likely worked out a strategy according to their movements.

The union's statement was also likely made first by tracing the movements on the management side and gradually raising its tone, all the while keeping a clear distinction [between themselves and] company management" (Kawamura, 1985, pp. 201-202).

Regarding the increase in the labor union's tone and its influence, Kawamura adds the following words:

"While no clear demand for resignation was aimed at Okada himself, [the union] indirectly showered him with sharp criticism. At the same time, they likely applied psychological pressure on anti-Okada executives working towards their goal in that they 'would not allow for any backtracking.' They showed quite admirable command in bringing together the union and delineating themselves from the upper management during the company's crisis" (Kawamura, 1985, p. 202).

4.2. The role of employees in the dismissal of managers at companies other than Mitsukoshi

President Okada's dismissal from Mitsukoshi, as described above, has been one example, which has been followed by more than a few later cases in which employees played an important role in the dismissal of top managers (Yoshimura, 2007; 2008; 2012; 2014). Some examples led or affected by the labor union include: the virtual dismissal of the president of a musical instrument manufacturer and the significant decrease in power of its former president (who was the president's father and director/senior advisor to the company at the time) in February 1992, and the dismissal of the chairman and president of a holding company for a precision instrument manufacturer and the simultaneous decrease in the honorary president's power (from the founder's family) in April 2010.

Likewise, some examples led or affected by the middle management include the resignation of all the representative directors at a major securities company followed by a review of the president of a major city bank and the resignation of the president of a major toy company in 1997, and the dismissal of the chairman and president of a precision instrument company in November 2006.

4.3. From the standpoint of corporate governance in Germany: The influence of family businesses[3] and industrial foundations

There was no legal backing to the involvement of employees in corporate governance in the Japanese examples. In all cases, the final word came from discussions at the Board of Directors meetings.

On the other hand, examples of employee involvement that have been legally backed are those

3) Regarding companies in which family ownership and management has played an important role, negative claims had been the dominant argument. In recent years, however, many researchers have developed cases for a positive understanding of such companies. *Annals of Organizational Science* (Special issue: "Shoyu to shihai" ron wo koete (Beyond discussions of "ownership and control")) (Vol. 48 No.1, 2014) and *Hitotsubashi Business Review* (Special issue: Strength and Risk of Family Business) (Vol. 63 No.2, 2015) contain many articles on this matter.

in Germany with the corporate co-determination system. The state of this system is currently under scrutiny, as the bank, which had played an important role similar to that in Japan, has fallen in power while shareholders championing the Anglo-Saxon corporate governance system have risen to power (Yoshimura & Horiguchi, 2013). However, it has not yet resulted in a review of the system itself, and employees are able to simply intervene in an official capacity in corporate governance.

At the same time, on the European continent, including Germany, families and foundations are seen to exert great influence over corporate governance as major shareholders (Kishida, 2007; 2008a; 2008b; 2009; 2013; Ogata, 2008; 2009a; 2009b; 2009c; Toyoshima, 2012; Nofuji, 2012; Mayer, 2013; Yoshimori, 2015; Yazawa & Toyosawa, 2015). Of such companies, there are more than a few, such as Bosch, that continue to achieve success (Yoshimori, 2015). Each of these corporate governance codes reinforce dialogue between shareholders and the company, and the major shareholders of these companies have moved to develop such dialogues.

5. In place of a conclusion

While focus is generally placed on the existence of shareholders such as institutional investors in the issue of corporate governance, this paper has discussed the importance of appropriating due consideration to other players as well.

Corporate governance has been discussed in Japan for quite some time. In response to Japanese companies producing a large number of defective communication devices after WWII, the Civil Communication Section (CCS) of the GHQ conducted a survey of these companies' management conditions (Gotō, 1999). As a result, retraining managers in the basics of management was deemed necessary in order to improve product quality, and CCS management seminars were implemented among the executives of communication device manufacturers over the course of 8 weeks for a total of 128 hours in 1949.

These seminars came to be known as the starting point for the rapid increase in product quality after the war. The seminars addressed the essence of management and questioned the meaning of the company's existence as well as the managers' responsibilities. At the same time, they discussed the advantages and disadvantages of a Board of Directors composed only of inside directors.

Some of the advantages discussed included: (1) ease of deliberating on basic issues and policies due to the gathering of important representatives in the company; (2) swift implementation of matters requiring serious deliberation; (3) ease of summoning special meetings; and (4) ability to constantly study and process company issues at the Board of Directors meeting, due to the ease of holding many such meetings.

On the other hand, disadvantages included: (1) lack of objective opinions and protection of shareholder interests; (2) the Board of Directors meeting would simply be ratifying what had already been implemented using the directors' statuses in the company; (3) while the president is supposed to report to the Board of Directors, in this case, the directors would oddly enough have to report to the president regarding their work; (4) it would tend to result in the president's one-man show; (5) while the Board of Directors excels in terms of expertise, it lacks amiable businessmen and would thus be unable to produce well-balanced decisions; (6) the Board of Directors would lack the wide range of opinions necessary for deliberating on issues; (7) there would be nobody to check the managers and question the soundness of their decisions and behavior.

These points remain nearly identical to the advantages and disadvantages pointed out today. While this discussion was held over a century ago, the similarity in this list points to the difficulties in examining the state of corporate governance.

Questioning the state of corporate governance precisely leads to questioning the essence of the joint stock company. Koike (2015), for instance, proposes a detailed mechanism for compelling employee representatives to participate in the management's decision-making.[4)] Miyamoto's argument (2014) and discussions from a finance theory perspective talk about the possibility of governance from the inside (Acharya et al., 2009; Miyamoto, 2013). Governance from the inside is, of course, not being recommended as the best form of governance. Even in the example of Mitsukoshi, the President's dismissal came only after the company's state of business truly worsened. In most of the other cases, it must be pointed out that the timing had simply been missed.

While it has often been mentioned that there are a variety of shareholder types (Sayama, 2014), for example, in terms of holding periods, shareholder interests in management and Mayer's (2013) proposal concerning shares of different classes,[5)] further discussions should develop on the role of "long-term commitment shareholders" as posited by Kagono (2014). Long-term commitment shareholders are shareholders who, like "good parents," continue to own a stock for a long period

4) Itami (2000) had already proposed a detailed system regarding mechanisms for governance from the inside.

5) While the Loi Florange, established in France in 2014, includes an escape clause by which its application can be avoided if two-thirds of the stockholders oppose, it gives twice the voting rights to stockholders who have held a company stock for more than two years.

Some investigations by lawyers into the mechanisms of share classes and their impact include those by Kato (2015) and Mori Hamada & Matsumoto (2015).

For details on Toyota's "Model AA" class shares, see Nakajima et al. (2015).

of time and offer assistance in the unlikely event that something happens. Minority shareholder protection and the listing of subsidiary companies through their parent companies are conditions not often observed in the west and are oftentimes frowned upon. However, some argue that listed subsidiary companies are an effective means for developing new businesses (Fujita, 2010; 2015). Furthermore, there are more than a few companies in which the company's success has been based on its employees becoming major shareholders and actors in the company's governance (Hosokawa, 2015).

Such multifarious forms should be inspected once again to incorporate the lessons learned thereof into future discussions on corporate governance.

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