Corporate governance in Japan and the U.S. and its implication for deterrence

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An Anatomy of Corporate Governance

- Does a firm maximize the value of shareholders or stakeholders?
  - Shareholders: usually aiming to maximize profits.
  - Stakeholders: shareholders, creditors, employees, suppliers, and customers...
- Does a firm focus on short-term or long-term wealth?
- How does a manager achieve the goal of a firm?
  - The **board** of directors monitoring a manager.
  - Executive **compensation** incentivizing a manager.
  - **Corporate control** market kicking out a bad manager (e.g., hostile takeovers).
  - **Contract length** (e.g., flexible or life-time employment).

The two extremes

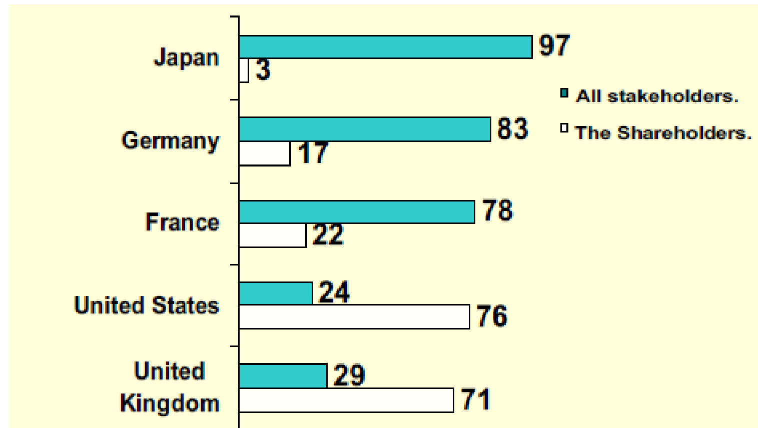
Corporate goverance	J-type	A-type
Whose value is maximized?	Stakeholders	Shareholders
Time horizon	Long-term	Long-term/Short-term
The board of directors	Insider directors & CEOs	Outsider directors & CEOs
	Strong creditor influence	Weak creditor influence
	Strong employee influence	Weak employee influence
Executive compensation	Flat pay	Performance-senstive pay
Corporate control market	Few hostile takeovers	Frequent hostile takeovers
Contract length	Cross-shareholdings/Family ownership	Diversified ownership structure
	The "main bank" system	Bonds/Syndicated loans
	Life-time employment	Flexible employment
	(Illiquid labor market)	(Liquid labor market)

Source: Aoki (1990), Jacoby (2007), and Yoshimori (1995).

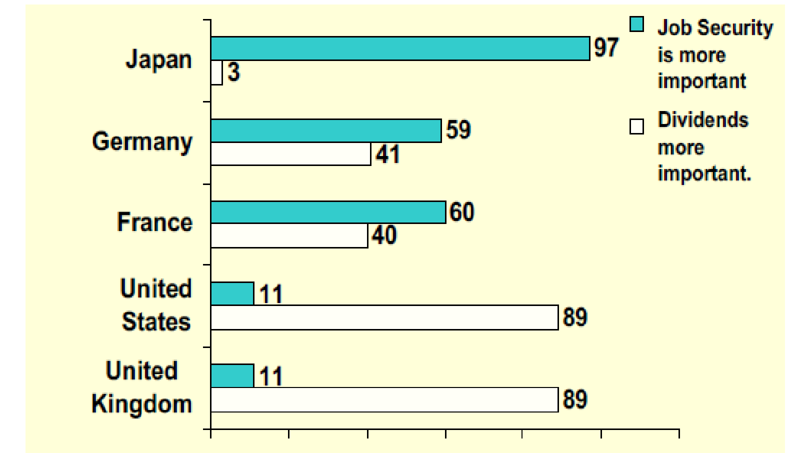
Floating between the two extremes

Surveys of managers at a sample of major corporations in the five countries (Source: Yoshimori, 1995).

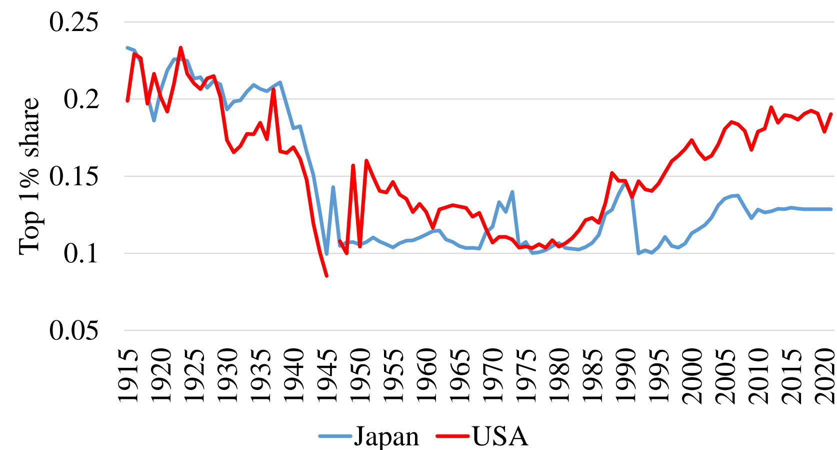
Whose company is it?



Job security or dividends?



The income share of top earners



Source: World Inequality Database.

Implications and questions

Incentive for wrongdoing	J-type	A-type
Corporate profit-taking	Weaker	**Stronger**
Personal benfit from misconduct	Weaker	**Stronger**
Cut throat work environment	Less likely	**More likely**
Excessive team orientation	**More likely**	Less likely
Corporate inattention to misconduct	More/Less likely	More/Less likely

- Are J-type firms’ employees more likely to commit a wrong in order to benefit others rather than themselves? If so, how should deterrence be differentiated between J-type and A-type?
- Because J-type firms have weaker profit-taking incentives and they are already prosocial to some extent, should their corporate criminal liability be limited?
- Because the corporate and employees’ incentives of J-type firms are less clear, are they more influenced by “corporate culture”? If so, how can we measure it?

References

- Aoki, M., (1990), Toward an Economic Model of the Japanese Firm, *Journal of Economic Literature* 28, 1-27.
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- Yoshimori, M., (1995), Whose Company Is It? The Concept of the Corporation in Japan and the West, *Long Range Planning* 28, 33-44.