Japanese Holding Companies: Past and Present

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I. Prohibition and Deregulation

A “HOLDING COMPANY” is generally defined as “a company that controls operating companies by purchasing and owning their stock.” Of course, holding companies correspond to but one of the many corporate structures that exist in the world. In post-World War II Japan, however, the term had, in a certain sense, special connotations that colored the curious history of the holding company in Japan.

During the GHQ-led occupation of Japan after the Second World War, the establishment of holding companies in Japan was “prohibited.” Article 9 of the Antimonopoly Act (the so-called “Primitive Antimonopoly Act”), a law enacted in 1947, expressly outlawed the establishment of holding companies, clearly stipulating that “holding companies shall not be established.” The document also defined a holding company as a company that “may be to cause excessive concentration of economic power through holding of the shares...of other companies.” For the next 50 years, these provisions remained essentially constant until lawmakers revised Article 9 in 1997. The Japan Fair Trade Commission was also created in 1947 to enforce the law’s provisions.

The Antimonopoly Act’s ban on establishing holding companies was an unprecedented provision unique to Japan. As the Japanese economy

launched into its remarkable postwar ascent and the rapid economic growth process took shape, forces in the business world and the Ministry of International Trade and Industry pressed repeatedly for revisions to Article 9. Despite these efforts, however, Article 9 went unchanged for the half-century leading up to 1997. Effectively outlawing the establishment of holding companies, Article 9 represented a high-profile legal “anomaly,” the likes of which could not be found in any other country.

One important point to note here, though, is that Article 10 of the Primitive Antimonopoly Act actually contained more important provisions than Article 9. Article 10 stated that “a company that operates business outside the financial industry shall not acquire the stock of other companies.” Essentially, this thoroughly forbade regular operating companies from owning other companies’ stock. Article 11, meanwhile, established tight restrictions on the ownership of outside by banks and other financial companies. The Primitive Antimonopoly Act prohibited not only the establishment of holding companies but also the ownership of other companies’ stock itself.

Immediately after Japan’s defeat in World War II, GHQ took an aggressive, uncompromising stance on its Japan strategy. This approach was on full display in the terms of the Primitive Antimonopoly Act and its ban on the ownership of other companies’ stock – a virtually inconceivable legality in today’s world. In *Dokusen kinshihō to waga kokumin keizai* (The Antimonopoly Act and Japan’s national economy), Hashimoto Ryōgo argues that the concept behind Article 10 was what formed the bedrock of the entire Primitive Antimonopoly Act. Without the ability to own outside stock, companies had no way of placing subsidiaries under their control; this prevented the formation of corporate groups and, most importantly of all, made it wholly impossible to create holding companies. Japan’s ban on the establishment of holding companies thus emerged from the combination of Articles 9 and 10 of the Primitive Antimonopoly Act.

As time passed, however, GHQ’s strategy for Japan changed course due to shifting political conditions in the Far East. Amidst these changes, the Antimonopoly Act was amended in 1949 (and again in 1953) to weaken Article 10’s rigid ban on owning other companies’ stock, marking a radical shift from outlawing the ownership of outside stock to allowing such ownership in principle. Consequently, many major corporations embarked on transformations into “companies that control other businesses through

the ownership of stock” – in other words, holding companies. Large enterprises in the contemporary textiles, shipbuilding, steel, and other industries began scrambling to bring subsidiaries under their corporate umbrellas.

The only problem, though, was that the 1949 and 1953 revisions left Article 9’s ban on the establishment of holding companies untouched. As discussed above, Article 9 maintained its basic form until the 1997 amendments to the law. With Article 9 (which placed a ban on establishment) and Article 10 (which allowed establishment in principle) in direct opposition to one another, the policy cleaved the concept of the “holding company” into two types: “pure holding companies” and “operating holding companies.” Elsewhere in the world, holding companies are simply holding companies; there is never any talk of categorizing them. In postwar Japan, however, a holding company was either a “pure holding company, which exists to control other companies,” or an “operating holding company, which operates some other form of business.” This meant that companies were free to establish operating holding companies, while the ban on holding companies under Article 9 of the Antimonopoly Act – a prohibition that stood for 50 years – applied only to pure holding companies.

The Japanese economy developed at a staggering speed after World War II, blazing the trail that would usher Japan into the upper echelon of the world’s great economic powers. The freedom to establish operating holding companies played a pivotal part in driving these transformative changes. As time went on, lawmakers were met with demands from major corporations, business associations, and the Ministry of International Trade and Industry to go beyond simply deregulating operating holding companies; the next step, these groups said, was to do away with the ban on pure holding companies. These groups argued that Article 9 was a “legal anomaly” on an international scale, a set of provisions that created adverse conditions for Japanese industry by effectively outlawing pure holding companies. According to proponents of amending the law, Article 9 was a “leftover GHQ policy” from the occupation and prevented Japan from establishing an even economic playing field with other countries. However, the Japan Fair Trade Commission and other groups on the other side remained in firm opposition to the amendment movement; they argued that Article 9 of the Antimonopoly Act was fundamental in achieving “economic democracy” and obviating the economic centralization that,

like the *zaibatsu* of yore, dominated the Japanese economic sphere.

The battle over Article 9 of the Antimonopoly Act split the economic system of postwar Japan into two contentious camps.

II. *Zaibatsu* and Emerging Corporate Groups: Prewar Holding Companies

The Primitive Antimonopoly Act prohibited the establishment of holding companies in order to quell the possible revival of the *zaibatsu* combines (*Konzern* in German) that had ruled the prewar Japanese economy. In the wake of Japan's capitulation in World War II, the GHQ dismantled the existing *zaibatsu konzern* through a series of postwar reforms. However, the occupying forces were well aware that the combines could, theoretically, come back to life. To eliminate this possibility, the GHQ thus made it illegal to establish "*zaibatsu headquarters*" (*zaibatsu honsha*; in other words, holding companies), which had once held the reins of *zaibatsu konzern* operations. Postwar Japan's unprecedented, unfortunate fate of having an economy without holding companies was inextricably linked to the existence of *zaibatsu konzern* before the onset of World War II.

The following section examines the conditions of holding companies in prewar Japan, focusing primarily on *zaibatsu konzern*.

Mitsui, Mitsubishi, Sumitomo, and other "*zaibatsu*" (family-controlled, large-scale corporations) began quickly ramping up their multifaceted business expansion efforts in the late 19th and early 20th centuries. In the 1910s, the *zaibatsu* – which had by that time grown into giant management structures overseeing a diverse range of businesses – started to take the initiative in converting the businesses under their control into joint-stock companies, becoming "*zaibatsu headquarters*" (holding companies), and unifying their operations into pyramid-type *konzern* structures. One after another, the more than 10 *zaibatsu* in existence at the time established *zaibatsu headquarters* and shifted toward the *konzern* organizational scheme, launching the so-called "concernification movement." There were several reasons for *zaibatsu* to form the various businesses under their control into individual joint-stock companies. For instance, the *zaibatsu* needed to manage their arrays of different businesses in a more logical, economic fashion, use the limited liability system to avoid spreading risks

to the families in control, and comply with contemporary reforms to the corporate tax system.

Zaibatsu thus built pyramid-type *konzern* structures in which a *zaibatsu* headquarters – a holding company – oversaw the various business divisions under its own umbrella. By the early 1930s, *zaibatsu* had evolved into massive capital organizations that exerted control over the core components of the industrial sector, wielding an overwhelming economic influence within the Japanese economic milieu. On a capital base, Mitsui, Mitsubishi, and Sumitomo alone combined to control 12% of all companies in 1936 and 25% of all companies in 1945. These “holding companies” represented an instrumental element in uniting diverse industrial divisions into one standardized structure.

When exploring prewar holding companies in Japan, it is also important to remember that *zaibatsu konzern* were not the only organizations of note. The 1930s also witnessed the formation of “corporate groups” characterized by parent-subsidiary relationships. Over the broader span of Japan’s history of economic development, the 1930s were a time of widespread prosperity and significant growth in the heavy and chemical industrial sector. Utilizing a wealth of new technologies from around the world, Japanese companies enjoyed active, dynamic corporate activities, diversified their business operations, and, particularly among major companies, created subsidiaries under their control.

Scholars often point to the development of five major corporate groups – Japan’s “emerging *konzern*” – to mark the advent of the parent-subsidiary corporate group in the 1930s. However, the corporate group movement was not confined to a set of specific cases. In fact, the trend was universal in nature; riding the waves of the economic boom that defined the 1930s, a majority of large-scale companies started to put subsidiaries under their control. By creating subsidiaries, organizations that had once been no more than simple “companies” quickly began to metamorphose into corporate groups. In other words, companies transformed into “parent companies” in control of subsidiaries – the basic definition of what a “holding company” is.

Past research on prewar Japanese holding companies tended to focus solely on *zaibatsu konzern*, but this attention is understandable – the loci of control over *zaibatsu konzern* were, after all, holding companies in the basic sense of the term. However, research has generally ignored the

significance of the “corporate group” movement in the 1930s, which saw numerous major companies become holding companies en masse.

If we were to define a “holding company” as “a company that controls the business of other companies under its umbrella through the ownership of stock,” we would naturally need to include the existence of parent-subsidary corporate unions (corporate groups) within the scope of our discussion. As explained above, clear evidence of this parent-subsidary corporate union development in Japan can be found in the 1930s and thereafter. The “holding company” concept thus finally extended beyond the realm of *zaibatsu konzern*, spreading throughout the entire breadth of the Japanese economic landscape. Although most *zaibatsu konzern* holding companies (*zaibatsu* headquarters) were “pure” holding companies, the holding companies in corporate groups included both the “pure” and “operating” varieties.

One additional point worth noting here is that the parent-subsidary corporate groups in the 1930s also permeated the ranks of the *zaibatsu konzern*. An examination of the inner structures of 1930s *zaibatsu konzern* reveals that some of the companies under their larger umbrellas also started to create subsidiaries, making them holding companies (corporate groups) in their own right. As a result, the overall *zaibatsu konzern* structure assumed a “double” holding company configuration, one in which the *konzern* itself had a holding company (the *zaibatsu* headquarters) and included individual corporate group holding companies (parent companies) in its substructure. The corporate group movement that rose to prominence in the 1930s thus reshaped the *zaibatsu konzern* structure.

In the end, the 1930s Japanese economy witnessed the dawn of “the holding company age” – a historical transformation triggered by the burgeoning proliferation of parent-subsidary corporate groups.

III. Corporate Groups and Spin-Off Maneuvers

Holding companies had subsidiaries under their control – but how were these “subordinate” companies created in the first place? In short, there were two main ways: business networks or M&A, in which a company would bring subsidiaries as well as existing outside companies under its control, and spin-offs, where a parent company would break existing internal business units off from the main company structure.

Delving into how subordinate companies originated is a compelling challenge in the field of business history. For example, prewar *zaibatsu* integrated myriad outside companies into their structures as subordinate companies; however, if you look only at their core industrial divisions, it is clear that their foundational frameworks were built via spin-off maneuvers that separated individual parts from the whole (by converting diversified businesses into joint-stock corporations). Meanwhile, the corporate groups that appeared in the 1930s actually tended to take shape more often through “one-after-another” spin-offs from the parent company than via business networking aimed at outside companies. By expanding business horizontally and/or vertically, these parent companies took active steps to cut internal businesses out of the larger corporate body and create subsidiaries.

Analyzing these subordinate companies is also useful in making international comparisons of holding companies. Regardless of where you look, it is next to impossible to find a major corporation without subsidiaries in today’s world. All of these large-scale companies around the world have adopted the parent-subsidiary corporate group structure. A closer look at the corporate groups of contemporary Japan, however, reveals certain characteristics that are much more pronounced in Japan than in other countries. First, Japanese corporate groups tend to have many more subsidiaries under their umbrellas than corporate groups elsewhere; some corporate groups boast as many as 1,000 subsidiaries. Second, companies created mainly via spin-off maneuvers constitute the majority of the subsidiaries within Japanese corporate groups. These subsidiaries have close business connections with their parent companies’ “core businesses,” serving as offshoot organizations or “detached forces” designed to support core business. Finally, parent companies are not the only ones that go public – there are also many “listed subsidiaries.”

In general, Japanese companies have been strongly motivated to execute spin-off strategies, breaking off diversifying business divisions and operating groups like manufacturing units and sales departments one after the other. These patterns, in turn, formed the character of holding companies in Japan and left a lasting impression on the “Japanese” style of business combination.

Company expansion naturally creates the need for decentralized management systems that, when combined, cover the entire organization.

Corporate management thus confronts the important issue of how best to decentralize the management of an organization that has grown into an increasingly complex, sprawling form. From the 1930s onward, Japanese companies have relied on spin-off maneuvers – the speediest decentralization scheme available – to solve that very problem. Spin-off strategies allow a parent company to make an internal sales department into a “sales subsidiary,” a manufacturing plant into a “manufacturing subsidiary,” and other operating units into different subsidiaries, effectively detaching these pieces from the original whole. Breaking operating units away from the central framework lets a parent company slim down and redefine itself as a “strategic headquarters” dedicated to managing the entire group.

“Spin-off” procedures thus naturally streamline and position the parent company as a strategy-oriented head office. If a parent company were to take the spin-off maneuver to the extreme, spinning off all of its operating units, it would eventually assume the form of a “pure holding company.” In Japan, however, there were legal obstacles in place to prevent this scenario from ever happening. Breaking off every last one of its internal operating units would effectively make a parent company a pure holding company, an entity that Article 9 of the Antimonopoly Act expressly prohibited. To help circumvent these restrictions, Japanese companies created the “company system,” which was in many ways a uniquely Japanese decentralized management framework.

IV. The “Company System”

The so-called “company system” was a result of the clash between the strong desires of Japanese companies to spin off their internal units and Article 9 of the Antimonopoly Act. According to Ogawa Mitsuo, the company system represents a “unique organizational structure unlike anything the world had ever seen” (*Bunsha keiei* [Spin-off management], p. 25).

In 1994, Sony became the first company to adopt the company system, which it named and helped popularize. At the time, Sony was the parent company of the “Sony Group,” a controlling structure home to several hundred subsidiaries (branches), but still held several operating units within its internal configuration. The first step Sony took was to divide the

parent company organization into a “corporate” area, which performed only strategic headquarters functions, and a number of “company” areas, which each took on a share of the operating unit duties. Next, Sony employed an organizational format under which it treated its “company” areas as if they were normal “subsidiaries.” The operating companies that were once internal components of the Sony Group’s parent company thus became eight “company” areas.

By employing the company system, which kept the “company” areas squarely within the internal structure of the parent company, a company could avert violations of the Antimonopoly Act. Still, Sony treated its “company” areas in the same way as their “branches”; this meant that each “company” area had the elements that a normal subsidiary would have, albeit in essentially fictitious forms: official posts, such as president, a board of directors, income statements, balance sheets, and even (internal) capital. Each “company” thus assumed the appearance of an individual company (corporation), just as normal branches did.

As stated above, the unique “company system” organizational pattern emerged from the meeting of two sets of conditions – the ban on pure holding companies that characterized the times and the dogged determination of Japanese companies to implement spin-off strategies. The “company system” went by several different names: some called it the “in-house branch system” due to its defining characteristics. The “pseudo-holding company system,” another nickname, arose from the fact that the system essentially made the “corporate” area a pure holding company. Because of the ongoing prohibition of pure holding companies, the company system spread out from its origins at Sony to become the system of choice at a wide array of other companies.

The problems with the company system began to materialize when lawmakers lifted the prohibition on pure holding companies in 1997. At its core, the company system was a “transitional organization” designed to provide a temporary fix until the ban on pure holding companies one day dissolved and rendered the entire system unnecessary. In reality, however, there are companies that still use the company system despite the lack of any legal obstacles standing in the way of establishing pure holding companies. This is simply because the company system continues to represent an important, viable option for Japanese companies and their organizational structures. Some companies have even switched to a

pure company holding system only to then convert back to the company system. Why in the world would a Japanese company prefer holding on to the company system, which was originally supposed to be no more than a transitional stopgap measure, to establishing an actual pure holding company? The reason is probably that many companies have discovered distinct advantages within the new organizational style created by the company system, merits that cannot be found in pure holding company setups. These advantages are evident in the different “degrees of decentralization” that the company system, division system, pure holding company system, and other constructs produce. As these points have been treated elsewhere (*Mochikabu gaisha no jidai* [The holding company age] and *Mochikabu gaisha to Nihon keizai* [Holding companies and the Japanese economy], both by the author), I will now move on to the next topic of discussion.

V. The Lifting of the Ban on Holding Companies and the Vanishing “Holding Company”

Revisions to the Antimonopoly Act in 1997 finally nullified the prohibition on establishing holding companies, thereby granting the longstanding wishes of major companies, economic groups, and the Ministry of International Trade and Industry. However, the road there was by no means an easy one. The idea of lifting the ban on pure holding companies had long been a touchy issue, kept under seal for 50 years after the end of World War II. Given these circumstances, the thought of actually revising the law had considerable repercussions in realms both political and social.

The text of Article 9 was revised to read, “Any holding company that may be to cause excessive concentration of economic power through holding of the shares...of other companies in Japan shall not be established.” By adding the “...that may be to cause excessive concentration of economic power” phrase, lawmakers qualified the idea of a “holding company” and allowed for the free establishment of holding companies that do not violate the terms of the added clause. What, then, constitutes “excessive concentration of economic power”? Initially, cases of the “three prohibited types” were prepared to illustrate examples that would fall under the category of “excessive concentration of economic

power.” However, people gradually began to ignore the examples, which were relatively ineffective.

Here, let us take a closer look at why the “longstanding wishes” to overturn the ban on holding companies were granted when they were.

Still deeply fractured by the early 1990 collapse of the “bubble economy,” the Japanese economy at the time found itself on the verge of making one of its biggest transitions of the postwar era. Japan’s extended period of growth that developed in the aftermath of the war finally came to an end, quickly plunging the country into a deep slump that would maintain an unrelenting grip on overall economic conditions for several years to come. Amidst these circumstances, lawmakers floated the idea of lifting the ban on holding companies as a “wonder drug” that could potentially alleviate the maladies of the downturn and get Japan on the road to economic recovery. Companies could take advantage of holding companies in integrating management with competitors and reorganizing their respective industries. Major companies faced with ominous competitive environments would also have a better chance in going up against international competition; holding companies could make it easier for them to expand business through enterprise integration and spur industrial reorganization.

Of course, misgivings about achieving corporate concentration through holding companies is exactly what fueled arguments against lifting the ban. Due to the negative qualities it associated with prewar *zaibatsu*, postwar Japanese society had seen holding companies as no more than a form of “economic concentration” and an “acquisition tool” for large-scale corporations. These types of pro-ban sentiments represented the prevailing school of thought for several decades after the war.

The winds began to shift in the mid-1980s, however. It was around this time that the views of ban opponents, who argued that the “holding company” organizational format was a tool for not only so-called “economic concentration” but also reorganization initiatives within individual companies, began to set down stronger roots. This stance formed the core logic of the “economic utility” or “advantage/disadvantage” arguments. It just so happens that the mid-1980s were also a time when people voiced strong support for efforts to relax political and economic regulations. Proponents of neoclassical economics began to emerge, espousing the idea that companies should be free to conduct

management as they choose. As discussed above, Japanese companies were aggressive in their spin-off strategies. Most major companies oversaw group management operations. Knowing that organizational structures designed in the pure holding company mold would facilitate and optimize group management, more and more companies aligned themselves with the effort to eliminate the prohibition.

The need to remove the ban on pure holding companies also grew increasingly salient as the contemporary Japanese economy scrambled to find ways of reorganizing various industries. One of the most pressing issues was rescuing megabanks on the verge of serious failure; left unaddressed, these problems had the potential to set off a debilitating crisis in the financial system. The idea of establishing pure holding companies to enable integration between megabanks, a measure that would help reorganize the entire financial industry, thus began to draw significant attention. Another issue that captivated public interest was the “divestiture debate” over the future of NTT, the mammoth enterprise that was the government-owned Nippon Telegraph and Telephone Public Corporation for over three decades until being privatized in 1985 amidst a worldwide IT revolution. Many experts posited that the holding company method furnished a pragmatic, effective solution to this issue, as well.

With this turmoil churning in the background, proponents and opponents of the ban locked into prolonged, combative back-and-forth until finally amending Article 9 of the Antimonopoly Act in 1997.

In addition to lifting the ban, lawmakers also changed the traditional interpretation of what a “holding company” signifies. The new rendering of the definition stated that a holding company is one “whose ratio of the total acquisition value of the shares of subsidiary companies to the total assets of the said company exceeds fifty percent.” This put the existing definition (a company that “controls other businesses through the ownership of stock”) into numerical, objective terms and excised the idea of “control” from the phrasing. Several new laws concerning financial holding companies went into effect in 1998, and lawmakers continued to develop legal systems for stock swapping, stock transfer, and corporate divestiture in 1999 and 2000. In 2003, the legislature responded to another pending concern by introducing a consolidated taxation system for subsidiaries.

With that, Japanese companies were essentially free to establish pure holding companies – something that had been entirely off limits for a half-

century.

One of the more interesting developments that occurred in the subsequent years was the 2002 revision to the Antimonopoly Act, which went so far as to strike the very phrase “holding company” from the text of the law. In the end, the phrasing read, “Any **company** that may be to cause excessive concentration of economic power through holding of the shares...of other companies in Japan shall not be established.” In short, lawmakers simply replaced the phrase “holding company” with the word “company.”

In postwar Japan, the economic term “holding company” was loaded with peculiar undertones, ones that conjured up images of prewar *zaibatsu konzern* and smacked of the negativity associated with monopolies and economic concentration. After the ban on “holding companies” was finally swept away, bringing an end to a half-century of wrangling and tussling, the term itself was also liberated from the express provisions of the Antimonopoly Act. Although the lifting of the prohibition on holding companies in 1997 loosed a flood of political and economic unrest, the additional revisions to the Antimonopoly Act in 2002 went by quietly, escaping even the fanfare of the press.

VI. The “Age of the Holding Company”: Present-Day Holding Companies

Freed from legal shackles in 1997, pure holding companies began to sprout up throughout the Japanese economic sphere shortly after the turn of the century. Recently, there have been more and more companies in Japan with names ending in words like “Holdings” or “Group”; all of them are pure holding companies, a business category that now accounts for around 10% of all listed companies. Many small-scale, unlisted companies have also adopted the pure holding company structure. “Immediate holding companies,” which control certain divisions or oversee different areas within a given corporate group, also deserve attention. With this recent flurry of pure holding company establishment projects, the Japanese economy once again finds itself poised to enter an “age of the holding company.”

One important thing to note here is that not all of the many new pure holding companies were of the same type. Depending on the purpose of the

holding company to be established, a company created either an “internal reorganization-type” holding company or an “industrial reorganization-type” holding company. It would be impossible to proceed further in our discussion without first recognizing the distinctions between these formats.

An internal reorganization-type holding company transforms a conventional operating holding company (a parent company) into a pure holding company for the sole purpose of improving the management efficiency of an individual corporate group. A company uses an industrial reorganization-type holding company, meanwhile, to create a pure holding company as an alternative to a merger; instead of converting operations within a given organization, this type serves to facilitate integration between two rival companies by establishing a new joint holding company. The industrial reorganization-type is sometimes called the “economic concentration type” because it inevitably thins out the competition, thereby altering the corporate rankings within the industry (reorganizing the industry).

Let us first examine holding companies of the internal reorganization-type. As noted earlier, Japanese companies had enthusiastically embraced and promoted group management. The problem in this setup, however, was that strategic group management and day-to-day operating management were mixed together within the internal structure of the parent company (the operating holding company). Parent companies knew that by making the conversion to a pure holding company framework, they could cut off all of their internal operating units with spin-off maneuvers and clearly demarcate their roles as group management-centric “strategic headquarters.” Many companies also adopted the internal reorganization model to reorganize the business fields under its umbrella from the ground up and make it easier to enter new business areas and withdraw from old ones. Internal reorganization-type holding companies harness the advantages that pure holding companies can offer and continue to contribute to the enhanced efficiency of group management.

Despite these advantages, some companies that originally converted to pure holding companies are now trying to revert to their original operating holding company setups (division systems or company systems). A closer look at these cases reveals that by positioning all of the businesses under their control as subsidiaries, these companies either lost the ability to locate their core businesses properly or had difficulties coordinating between

businesses under their umbrellas. For several years, the lifting of the ban on pure holding company catalyzed a rush of organizational transformations throughout the Japanese business world; now, though, companies are more cautious about adopting holding company models, accounting for the special characteristics of their group management frameworks as they weigh the potential positives and negatives of conversion initiatives.

VII. Holding Companies in Industrial Reorganization and International Competition

Research on holding companies is thriving. Much of the discourse on the topic focuses on advantages and disadvantages from the perspective of group management efficiency – a viewpoint that concentrates on the internal reorganization-type holding companies described above. However, research on the economic concentration and changes in market competition structure brought on by the industrial reorganization type is also a key area of exploration in scholarship on holding companies.

Looking back over postwar Japanese economic history, mergers and acquisitions (M&A) between major companies have occurred very rarely compared to similar activities in Western countries. The Japanese public has not been receptive to these rare mergers that give birth to giant corporations, either, as evidenced by the case of the Nippon Steel Corporation (which was created by the merger of Yawata Iron & Steel and Fuji Iron & Steel in 1970). These tendencies, however, changed dramatically with the lifting of the ban on holding companies in 1997, after which the number of M&A involving Japanese companies increased by a factor of five to six.

In the early 1990s, for example, management integration initiatives taking advantage of the holding company construct consolidated 20 major city banks into just three or four groups in the blink of an eye. Regional banks followed suit, integrating via the holding company method and bringing the total number of regional banks down by roughly half. Companies were particularly active with holding company-driven integration in the distribution (retail) industry, where the number of major department stores shrank from nine to four.

Most cases of holding company-based management integration involve rival companies using equity transfers and other methods to establish new

joint holding companies. Attempts at direct “outright mergers” between rival companies can generate many different forms of friction; both companies involved have a degree of “face” to maintain, and the merger has to respect the “equality” of both parties at least superficially. Both companies also have their own unique traditions, histories, work practices, and organizational systems – the merger also needs to account for and balance these differences.

These distinctive elements of “corporate culture” have for many years limited the number of M&A projects in the Japanese economic sphere. Now, with the holding company format at their disposal, companies are free to use the holding company method instead of attempting direct mergers. This method allows companies to set up a joint holding company in an intermediary position, sidestep the friction that a merger might create, and effectively perform management integration. Representing an alternative to outright mergers, holding companies have spurred a sharp increase in the number of M&A initiatives over the last several years.

Management integration between rival companies inevitably alters the makeup of the corresponding industry rankings. This is another driving factor that motivates rival companies to forge alliances. Ever since the lifting of the ban on holding companies, industrial reorganization maneuvers have played out like a game of musical chairs that continues to grow faster and wider in scope.

The important thing is that management integration agreements between rival companies naturally reduced the number of market competitors and quickly increased the market shares commanded by the “victorious” companies, thus creating “concentrations of economic power” in the corresponding industries. In fact, one of the main goals of removing the prohibition on holding companies was to enhance the competitiveness of Japanese companies by promoting reorganization through management integration, expanding business size, and consolidate economic clout. One could also very well say that the ban was lifted to improve the competitive structure of the domestic market, which experts had for many years labeled “excessively competitive.” Recent movements to relax the regulations on business combinations in the Antimonopoly Act and Companies Act are good evidence of this idea.

Surrounded by global competition, Japanese companies are face to face with a pressing need to sharpen their international competitive edge.

Holding company-based management integration has developed into a reasonably promising method for making that goal a reality. The number of M&A initiatives using the holding company strategy is sure to continue growing into the future. However, it goes without saying that improving overall company competitiveness requires more than just teaming with a rival company to live “under the same roof” and enlarge one’s business scope. It also involves reorganizing both companies’ offices and group companies, reassembling personnel and organizational systems, and establishing a comprehensive group management strategy that includes a “post-merger strategy” designed to improve management efficiency. As discussed repeatedly throughout this paper, management integration through holding companies was conceived as no more than an alternative to an outright merger. With global competition intensifying constantly, it is clear that temporary alternatives aimed at avoiding conflict and friction will not be enough. As Japanese companies step into the “age of the holding company,” they will now need to formulate a framework for centralizing and decentralizing on an entirely new stage.

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