The Evolution and Change of Contingent Governance Structure in the J-Firm System: An Approach to Presidential Turnover and Firm Performance

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1. Introduction

Recent theoretical and empirical research on the Japanese firm has highlighted a number of stylized facts as characteristics of corporate governance of J-type firms (Aoki 1988, 1995; Sheard 1994a ; Horiuchi 1994; Hashimoto 1995).

First, the board of directors of a J-type firm is composed mainly of corporate "insiders" (salaried managers promoted from within the company) and the membership of this board overlaps with the membership of the top management team. Second, thanks to stable patterns of cross shareholding among the members of corporate groups called *keiretsu*, the top management of the J-type firm are freed from the short-term pressures of the stock market. This relationship between top management and the capital market is quite different from the Anglo-American model in which the capital market functions as an effective monitoring device. Third, the main bank helps to mitigate any agency problem that might occur under the dispersed ownership of the corporation by non-active stable shareholders. According to Aoki (1994a), the selection and policy orientation of top management is controlled by both the body of employees and the main bank, to whom other investors and financiers delegate monitoring functions. The controlling power of the main bank is not explicit in the normal or favorable financial state. However, once a firm faces financial distress, governance shifts from insider to outsider (the main bank). In this sense, the controlling power of both parties is contingent on the financial state of the firm (contingent governance structure). This disciplinary mechanism differs from the Anglo-American system which is based on takeovers and bankruptcy procedure[1]. It is somewhat like the German system in which the *grossen Bank* plays a key role in corporate governance.

The purpose of this paper is to clarify the evolutionary process of the corporate governance structure summarized above and the recent changes in this structure, focusing mainly on the relationship between presidential turnover and corporate performance.

Let us explain our concrete concern in more detail. First, this paper is concerned with how corporate governance of the Japanese firm evolved in the course of postwar economic development. It has already been explained that the prototype J-type firm emerged during World War II and the postwar reform period in the work of Okazaki (1993a, b), Miyajima (1992a, b, 1994, 1995a)

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[1] Horiuchi(1994), using the terminology of Baums (1993), called this governance structure as "institution control", which is different from the market for corporate control. Lazonick and O'Sullivan (1995) also characterized the governance of the Japanese firm as "organizational control".

and Yafeh (1994). However, it is important to note that corporate governance in 1955 still retained characteristics of the market for corporate control because the ownership structure of large firms was dispersed as a result of the drastic reforms initiated by the US occupation army (GHQ). At the same time, the main bank status of companies was not stable due to fierce competition among banks for good clients (Hashimoto 1996; Miyajima 1996a). Therefore, it took a long evolutionary process for Japanese firms to establish the pattern of corporate governance summarized above. In this context, it is noteworthy that a necessary condition for sustaining contingent governance is that a rule concerning how to cope with financial distress should be shared among stakeholders in advance (Aoki and Okuno, 1996, 204-5). Focusing on when and how the implicit rule concerning contingent governance was established, this paper tries to follow the evolutionary process of the corporate governance structure of Japanese firms.

The second concern of this paper is to provide empirical evidence on the recent changes in corporate governance of the J-firm. Some researchers point out that, as companies have become increasingly less dependent for new money on equity financing due to financial deregulation since 1980, the monitoring capability of the main bank has declined. As a result, the budget constraints under which companies based their strategy was much "softer" than before, and this was one reason for the emergence of the bubble economy in the late 1980s. This understanding was suggested by Yoshida (1994), Aoki (1994a), Ikeo (1995), and broadly shared among researchers and policy makers (Economic Planning Agency 1996). Horiuchi (1995) argued persuasively that there was a significant negative correlation between equity financing during the late 1980s and the low profit rates of the early 1990s, based on companies listed in the second tier of the Tokyo Stock Exchange (TSE).

On the other hand, however, empirical studies mainly discussing the 1980s have not shown such evidence. For example, Kaplan (1992) showed that CEO turnover was significantly correlated with company performance, especially stock performance and income measures. Morck and Nakamura (1992), Kaplan and Minton (1994) and Sheard (1994) reported that the dispatching of a bank member to client companies was closely correlated to corporate performance. Although the number of sample companies was different among these studies, they all supported the view that corporate governance of the Japanese firm was still effective in correcting the moral hazard of top management, and that the city banks (main banks) played a central role in this disciplinary mechanism.

However, all these studies were based on the panel data of the 1980s and the early 1990s[2]. Therefore, even if the expected result was confirmed by the estimated regression, it is still possible that the disciplinary mechanism in the 1980s was less functional than in previous periods[3]. In order to clarify the recent changes in corporate governance in Japanese firms, we have to compare the estimation results of the 1980s with that of previous periods. Another purpose of this paper, therefore, is to offer empirical evidence for the recent changes in corporate governance from a historical perspective by using the same sample companies to test the same specifications of regression concerning turnover and performance during different time periods.

The paper proceeds as follows: Section 2 describes the characteristics of corporate governance of large firms in 1955 as a starting point, showing our periodization for postwar history; Section 3 explains the data and model behind this paper; Section 4 summarizes the features of top management in Japanese firms and the changing pattern of presidential turnover in historical perspective; Section 5 is the core of this paper where the results of regressions are abstracted; Based on the results of the previous section, together with the anecdotal stories, Section 6 shows our perspectives for the evolution and change of governance structure in large Japanese firms since 1955. We stress that although the governance structure changed in the late 1980s, the effective discipline mechanism which may have differed from previous periods seems to have been revived in the 1990s; Section 7 suggests areas for further research.

2. Strategy for Analysis

(1) Corporate Governance in 1955

The impact of postwar reform was decisive in dissolving the prewar structure. Although the separation of management from ownership was fairly prevalent in prewar Japan (approximately 70% of the largest one hundred companies in my estimation), top management strictly controlled, using the terminology of Fama and Jensen(1993), the ratification of investment projects and the monitoring of corporate performance by the board of directors in which either holding companies or large shareholder took part. Such a structure was completely dissolved by the postwar reform

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[2] Kaplan(1992) chose 119 large companies according to sales base in 1981, and on the estimation based on the data from 1981 to 1989, while Morck and Nakamura(1992) took 383 companies in the first section of the TSE, and their estimation was based on the data from 1983-87. Sheard (1994b) produced a larger data set composed of over 1000 companies, but his estimation is just from 1991.

[3] In fact, Kaplan(1992) pointed that "the magnitude of these relations and the amount of turnover explained are arguably not overwhelming".

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including the purging of top management and the dissolution of *zaibatsu*. As a result, the large corporation in postwar Japan is unique in that the board of directors completely excluded large shareholders, and the top management team, most of whom were promoted within companies, was in fact the same as the board of directors (Miyajima 1992b). Thus, this characteristic of the J-type firm appeared as a result of postwar reform; however, the other characteristics emerged later as we shall see below.

First, as the result of *zaibatsu* dissolution and securities democratization, ownership of large corporations became more dispersed relative to the concentrated prewar structure. The share owned by individuals and securities companies together was still over 60%, although the share of individual owners decreased rapidly after the stock market crash of 1949. Because the capital composition of large firms was in an "under-equity state" due to corporate reorganization, the companies actually faced the crisis of takeover. In fact, there were several cases of ex-*zaibatsu* companies suffering from takeover bids in the early 1950s (Miyajima 1992a ; 1994).

Second, regardless of GHQ's efforts to create a securities-based financial system, the corporate finance pattern that emerged in 1955 was one of debt financing based on the main bank system which traced its roots back to wartime financial control. Using the informational advantage based on their long-term relationship since wartime, city banks played an important role in reducing the asymmetry of information as well as incentive problems such as "insider control" in the postwar reconstruction period (Okazaki 1993b ; Miyajima 1992a). However, the main bank status of city banks to client companies was not yet established. Changes in the largest debtholder between 1948-55 were more frequent than between 1943-48. In particular, independent companies and newly-emerging companies, which did not have close relations with any particular bank in the prewar years, tended to change their largest debtholder more frequently. By 1955, main bank relationships had not yet spread throughout the entire economy (Miyajima 1995a).

Third, and last, the state discussed above encouraged the interpretation that the governance mechanism in 1955 could be characterized as one of coexistence between the market for corporate control, which GHQ originally tried to create, and organizational control based on the main bank system. This understanding is consistent with the fact that the dividend payout ratio per value was not only high, but also significantly correlated to the ROE (return on equity) in the early 1950s. It was also supported by the estimation result of the regression of presidential turnover

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on corporate performance from 1950-1955, where turnover significantly correlated with the dividend payout ratio and the ROE (Miyajima, 1995a; 1996a).

The task of this paper is to clarify the evolution of corporate governance structure since 1955. The basic strategy for this analysis is to divided subsequent history into several sub-periods by focusing on corporate ownership, corporate finance, and the influence of these on corporate governance. Then, estimate the same specification of regressions to these sub-periods. We will introduce our periodization using Figure 1-3 and highlight the background facts for the following section.

(2) The Periodization of Postwar Economic History

The First Phase of the High Growth Era (HGE) (1955-1964). The percentage of stock held by financial institutions and other business corporations relative to the total issued stock in Japan (listed companies) was comparatively unchanged during this time, while the percentage of portfolio investors (individuals plus trust funds- equivalent to mutual funds in the US) was relatively high. Although cross shareholding among ex-*zaibatsu* companies advanced, other companies depended on financial institutions and trust funds for their stable shareholders. It is reported that several companies still failed in their takeover bids, and that management buyouts were still prevalent. During this period, large firms depended on bank loans for new money, while simultaneously raising a certain amount of their capital in the capital market (Horiuchi and Sakurai, 1989). Main bank status was gradually established through severe competition among city banks for this designation. Measuring the stability of main bank status according to whether the largest private debtholder was same between 1957-60 and 1960-64, the stability in the later period was greater than in the former, but was still low compared with subsequent period (Miyajima 1995b). Although there is a room for further investigation, I tentatively argue that it was during this period that the formation of long-term relationships between city banks and companies was firmly established.[4]

The Later Phase of the High Growth Era (1965-72). The structure was largely changed during the so-called "Securities Recession" of the mid-1960s, when stock prices declined. Many companies faced a takeover crisis under the capital liberalization laws. In this context, they

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[4] Okazaki(1996) also reports low stability of main bank status measured by the largest debtholder in this period, showing different interpretation. More detailed investigation will be tried in another occasion

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stabilized shareholding by relying on financial institutions and related companies. Automobile companies took capital liberalization seriously and were especially eager to stabilize their shareholdings. As the share held by financial institutions increased, main banks became increasingly stable (Miyajima 1995b). Previous research shows that the stability of main banks exceeded 80% in this period (Okazaki 1992). On the other hand, large firms depended exclusively on borrowing for their external money. According to my estimation, the growth rate of firms on an asset basis was positively correlated with the leverage (borrowing-asset) ratio in this period[5].

After the Oil Crisis (1974-1982). After the percentage of stock held by financial institutions and other business corporation relative to the total issued stock somehow jumped in 1972, the increase in their share remained relatively constant during 1970s. The dividend payout ratio was not sensitive to the ROE at all. The relationship often called stabilized shareholding was completed around this period (Miyajima 1996a). On the other hand, companies began to reduce their borrowing from banks, a practice often referred to as "*genryo keiei*". However, it is worth noting that the standard deviation of sample companies on the leverage ratio increased to a greater extent than before (see Figure 2). This fact indicates that it was not possible for all companies to reduce their borrowing; rather, some companies continued to depend on the banks for their money.

Financial Deregulation and the Bubble (1983-1989). It was in 1983 that financial deregulation began to influence corporate finance.[6] From that year, companies increasingly came to depend on equity financing for their money and this trend became clear in the late 1980s. While equity financing did not change ownership structure, firms' capital composition improved dramatically. What should be noted here is that despite the fact that the internal fund exceeded investment levels, companies raised money through equity financing and bond issuance as well as borrowing[7]. As has often been pointed out, this money was invested in land and securities (Yoshida 1994).

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[5] This is based on the same sample as this paper. The relationship between the growth rate and the leverage ratio in the early phase of HGE is also positive, but not significant. On the contrary, it is significantly negative in the late 1970s (Miyajima 1996b).

[6] Hoshi, Kashyap, and Scharfstein (1991) identify 1983 as the year in which financial deregulation began to decisively influence corporate finance. Figure 3c basically supports this assertion.

[7] Horiuchi (1995) and Ikeo (1995) regards those raised money as a kind of free cash flow in the sense of Jensen (1986).

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After the Bubble (1990-). As investment levels decreased after the bubble collapsed, the share of the internal fund to financing increased, while the external fund depended largely on bonds. Although the ownership structure looked stable, there were signs that cross shareholding had been relaxed due to the stock price decline. This is often referred to *"mochiai no kaishō"*. Takano (1995) reported that the cross shareholding ratio began to decline in 1993, based on his own estimation. It is often pointed out that foreign investors and institutional investors such as life insurance companies began to exert an influence on the appropriation of income. Actually, the dividend payout ratio per value on sample average increased recently in spite of low profitability, and recovered its sensitivity to the ROE once again in the early 1990s.

In terms of corporate ownership and finance, we can divide the postwar history into the above five sub-periods. Then the question is how the relationship between the turnover and corporate performance changed throughout these periods. In order to clarify this point, we will choose the crucial phase when the capability and effort level of top management can be tested. Focusing on the profit rate trend among large companies shown in Figure 4, we chose the following five five-year periods from each sub-period.

- the yearly change in presidential turnover from the 1959-63 period, including the recession after the "Jimmu boom" (1956-57) and the "Iwato boom" (1959-61);

- the yearly change in presidential turnover from the 1965-69 period, including the "securities recession" (1964-6) ;

- the yearly change in presidential turnover from the 1974-78 period, including the recession following the oil crisis (1974-75);

- the yearly change in presidential turnover from the 1984-88 period, including the recession after yen appreciation following the Plaza Accord (1986);

- the yearly change in presidential turnover from the five firm years from 1990 to 1994 including the post-bubble recession (1992-).

3. Data and Model

Let us explain the data and model in this paper. To set up our sample we first produced a data base composed of 204 large Japanese firms in the manufacturing sector, which were pooled from the top 150 firms in the years either 1957, 1964, or 1972 on the basis of total assets. Then, we randomly picked one hundred companies from this data base, considering the industrial

distribution of companies in the original data base. The characteristics of these sample companies are summarized in Table 1. Using "*Yukashoken houkoku-sho*" (Japanese 10ks), and other materials, we checked the yearly turnover of presidents, the change in members of the board of directors, and the increase or decrease in outside directors and auditors in the sample companies for each five-year period respectively. The financial data is extracted from JDB financial data bank.

The final goal of this paper is to clarify which stakeholders had the most influenced on the turnover of company presidents, and whether the relation between presidential turnover and corporate performance changed throughout the postwar period. The model behind this paper is the contingent governance structure formalized by Aoki (1994a), and its intuitive expression is given in Figure 5. The essence of this model is as follows: insiders of the firm will become residual claimants after a fixed payment to general investors if output levels exceed the point b_1(insider control region). However, once output levels fall below b_1, control of the firm moves from insider to outsider. In this area, the main bank is in charge for paying the same amount of returns to outsiders, while insiders get the minimum granted return (w). If output levels fall below b_3, the main bank will prefer to liquidate its client companies[8].

The concern of this paper is just the control-transfer point (b_1 in Figure5) and to check whether patterns of corporate governance in Japan can be identified using this model by analyzing the relationship between presidential turnover and corporate performance. In order to apply this model to empirical studies, it is important to consider the following two points. The first point is concerned with specifying the control-transfer point (b_1) in the context of turnover or any change in the board members. In the real world, the transfer of control can take various forms; for example, the incumbent president may be replaced by an outsider, an outsider may take an influential position on the board despite the fact that the incumbent president is replaced by an insider, or an outsider takes an influential positions while the incumbent president keeps his/her position. The form which the transfer of the control takes has changed historically so it is necessary to consider this factor when designing dependent variables.

The second point is whether the focus of stakeholders is corporate performance per se or the relative performance of the firm. If the stakeholders monitor managerial capability and the

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8 For more stricter specification, see Aoki (1994b).

moral hazard of the incumbent president and board members, independent from exogenous factors (i.e. macro-economic fluctuations and industry specific shocks), their focus would be the relative performance of the firm (the difference from the industry average). However, if the monitors cannot accurately distinguish between indigenous factors and exogenous factors, and if corporate performance per se could influence the interest of stakeholders, it would be plausible that the stakeholders would be concerned with corporate performance per se. Since it cannot be ascertained *a priori* which is correct, an estimation should include both possibilities as independent variables. Considering the above points, we estimate the following four regression formula:

(1) $\Pr obit$; $Turn_i = a_0 + a_1\ uniqueP_i + a_2\ averageP_i + a_3 LS$

(2) $\Pr obit$; $Turn_i = a_0 + a_1\ uniqueP_i + a_2\ averageP_i + a_3\ B/A + a_4 d\ B/A + a_5 LS$

(3) OLS; $DM_{bank}(flow) = a_0 + a_1\ uniqueP_i + a_2\ averageP_i + a_3\ B/A + a_4 d\ B/A$

(4) OLS; $DM_{bank}(stock) = a_0 + a_1 BA, PR, OR/I$

Estimations (1) and (2) use the probit regression, where the dependent variables equal one if the incumbent president is replaced. Otherwise they are zero. Estimation (1) regressed the president turnover on performance variables representing the interest of stakeholders respectively, and estimation (2) regressed the turnover on performance variables simultaneously. TURN i as a dependent variable denotes instance like TURN 1 where the president was replace by an insider (someone recruited from the ranks of the firm's existing board members). TURN 2 indicates that the president was replaced by an insider and that there was also a major change in the membership of the managing board (*Jomu-kai*), that is three or more executives were replaced or demoted. TURN 3 indicates that the president was replaced by an outsider. TURN IN indicates TURN 1 plus TURN 2; BIG TURN is TURN2 plus TURN 3. ALL TURN denote Turn1+2+3 (see Table 3). Turnover by death is excluded from the data as much as possible [9].

Estimations (3) and (4) regressed the outside directors on corporate performance. The independent variable in (3) is the flow (net increase or decrease) of the directors dispatched from banks. The independent variable in (4) is the stock of outside directors at different period (see

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[9] However, turnover by disease is not excluded from the data unless undoubted critical disease is identified. Because it is impossible to verify each case as a really critical disease or a disease expressed as an official reason for resign.

Table 1 and 7). DM*bank* indicates that outside directors came from banks, whereas the DM_{out} denotes that all members are outside directors. Previous research (Morck and Nakamura 1992 ; Sheard 1994b) used the probit regression. However, this method has serious limitations in that the outside directors are identified with same weight, regardless of the position they occupied (chairman, plain directors, or auditors). In order to avoid such bias, this paper weights outside directors according to their position. The assumption behind this procedure is that substantial decision-making since the late 1950s was taken, not by the general board of directors (*torishimariyaku-kai*), but by the managing board (*Jomu-kai*) (Hirschmeier and Yui, 1978; Keizai-doyukai 1961). Therefore, 1) the outside low banking director (plain directors) and auditor only contributed to information gathering about client companies ex post; 2) it is the managing director who gathers ex ante information and possibly influences corporate management; 3) in order to correct the policy origination of client companies from the viewpoint of the debtholder or the shareholders, the outside director should take a higher position than the senior managing director (Senmu).

Assuming such a state, the outside president is given five points, the chairman, vice-president, and senior managing director are given three points, the managing director is given two points, and the plain director and auditor are given one point and 0.5 point respectively. Then, the aggregated points divided by the number of the board members, as a dependent variable (the outside director score, DM) is regressed on corporate performance and the leverage by the ordinary least square.

The independent variables should be selected so as to appropriately represent the interests of stakeholders of the firm. The proxy of the interest of the shareholder is the rate of return on equity (ROE), and the rate of return on stocks (RRS)[10]. The variables of the proxy of the interest of the debtholder are the operating income to sales ratio (OR), the operating income per employee (OR/L) which we interpreted as a proxy of excess employment, and the leverage ratio (borrowings/total assets; BA) and its percent change (*d*BA)). As for the interest of employees, the growth rate of employment (ER) and sales (SR) are selected. The tenure of the incumbent president (LS) is introduced into estimations (1) and (2) in order to control the seniority rule.

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[10] Idealistically, RRS should be based on a stock price at the end of firm year. However, this paper calculates RRS by using the yearly average price between the highest price and lowest price of firm year mainly because of data availability.

The independent variables except BA and *d*BA are all two-year averages. Unique *Pi* is calculated as the difference from the industry average to exclude the factors which are not related to the capability and effort of the incumbent top management. The industry average *Pi* is added to the regression formula in order to control the industry specific shock.

4. The Top Management of Large Firms in the Postwar Period

(1) A Snapshot: The Company President

Before examining the estimation result, let us summarize our information about an average president of a large firm, selecting five sub-periods after 1955 (Table 1). First, the majority of presidents in large firms in Japan were promoted within the company. Even when the percentage of outside presidents was highest in 1968, the ratio was only 15 percent. This was also the case for board members. A board composed of people promoted from within the company was a consistent characteristic of Japanese firms throughout the postwar period. Second, the average age of the president rose during the postwar period. The average age in 1960 was over 60 years, compared with the postwar period when the age of new presidents was around 50 years. Third, the rise in the age of the president was caused by "slow" promotion, which in turn gave birth to shorter tenure of presidents after the oil crisis. In 1960 the average age of presidents was 52 years but this climbed to over 60 years in 1977. It took 11.5 years to become president after joining the board of directors in 1977, compared with 7.4 years in 1960. The slow pace of promotion in Japanese companies by the end of 1960's, in turn, led to the short tenure of presidents which has been common since the 1970s. The data supports the often-cited phrase for characterizing the pattern of presidential turnover: "two times a two-year contract". It should be also noted, however, that this pattern was established only during 1970s and 1980s.

Kaplan (1994) argued that the relative short tenure compared with US firms, at least on the surface, is inconsistent with longer horizons in Japan than in the US. However, this is understandable since the individual in question learned the necessary skills specific to his/her firm as a member of the board of directors for over ten years before becoming president.

(2) The Pattern and Change of Turnover of Top Management

Now, let us summarize the characteristics and changes in the presidential turnover process in the postwar period using Table 2. While the frequency of turnover was relatively low in the

HGE, it increased after the oil crisis and then reached its peak in the late 1980s. Recently, the frequency of turnover has tended to decrease somewhat.

The pattern of president turnover has also changed over time. First, turnover by an insider (TURN 1, 2) has increased while turnover by an outsider (TURN 3) has decreased. TURN 3 accounted for 13 out of 41 cases of turnover in the first phase of HGE, but this decreased to 7 cases out of 67 after the oil crisis. At a glance, TURN 3 appears to have increased in the mid-1980s; however, in 9 out of 13 instances the outside incumbent was replaced by a new outside president. Second, in contrast to TURN 3, the number of cases where the president was replaced by an insider while there was also a major change in the membership of the board (TURN 2) increased from 6 in the first phase of HGE to 19 in the after oil crisis. Third, in instances where an outsider took an influential position senior (the managing director or higher) on the board while the incumbent president kept his position (BIG CHANGE) increased to 22 after oil crisis.

The trend of directors being dispatched from banks is shown in Table 3. The number of bank directors consistently increased during the HGE. The stock of directors dispatched from banks peaked in our sample in 1978 at over 109. Although the rate at which firms received outside directors from banks in 1969 was the same as 1978, that year was also a peak in terms of firms receiving outside directors who took a substantial position on the corporate board. This fact seems to be consistent with conventional wisdom that the main bank played an important role in restructuring firms after the oil crisis (Pascal and Rohlen 1993 ; Sheard 1989). However, the situation was reversed in the 1980s when the stock of outside directors decreased and those that were appointed tended to take less influential positions than before.

With this in mind, what effect did presidential turnover and the directors dispatched from banks have on corporate performance? Did this relationship change historically ?

5. The Results of Estimation

The results of estimations (1) and (2) are summarized in Tables 4 and 5 and those of (5) and (6) are summarized in Tables 6 and 7. The results of (1) and (3) only present the sign and significance level of the independent variables in order to avoid complexity. The correlation matrix of independent variables is shown in Appendix 1. The points to be noted are as follows: The variables which were most influential on presidential turnover were the proxies of the debtholder's interest (OR, OR/L). TURN 3 was negatively correlated to them in all periods.

TURN 2 was also negatively correlated to OR and OR/L in four of the five sub-periods, excluding the mid-1980s. Our finding that the significance level of OR and OR/L decreased in the case of the TURN 2 and TURN 3 after the oil crisis is at odds with previous research which emphasized the rescue activities of the main bank during this period (Pascal and Rohlen 1983; Sheard 1989); however, this will be discussed in a later section.

Another variable that influenced presidential turnover was the proxy of the shareholder's interest (ROE, RRS). It explains TURN 2, and TURN 3 in the first phase of the HGE, and again in the early 1990s, although the significance level is low. Since the RRS was still far from precise and the ROE may not have directly represented the shareholder's interest, there is room for further investigation. However, we would tentatively say that the interest of shareholders has been less influential on presidential turnover since the later phase of the HGE.

As for the interest of employees (ER, and SR), the most noteworthy point is that ER was negatively correlated to turnover by an insider (TURN 1, 2, TURN IN) in the period after the oil crisis. Namely, the probability of turnover of the incumbent president increased, if he/she initiated corporate restructuring where employment levels were reduced. On the other hand, TURN 2 and 3 in the period after the oil crisis positively correlated to SR, contrary to our expectations. One possible reason for this is that companies which pursued aggressive policies even after oil crisis tended to face financial distress. For instance, Koyo Seiko (a bearing producer) enlarged their facilities even after the oil crisis because it felt that the recession offered a good opportunity to gain market share. After 1975 the company was faced with serious excess capacity and its profitability declined (Koyo Seiko 1992). This interpretation is supported by the fact that the coefficient between SR and OR, OR/L among sample companies in the 1972-77 period was negative, in contrast with the HGE when both were positively correlated.

The tenure of the incumbent president (LS) was significant in TURN 1 as well as in ALL TURN in almost all periods. However, since the coefficient of LS in TURN 1 of the HGE was lower and less significant than in later periods, the turnover by insider was not completely determined by the seniority rule in the later phase of the HGE. After that, the coefficient of LS in TURN 1 increased from 0.025 in the 1970s to 0.068 in the mid-1980s and reached nearly 0.10 in the early 1990s. Furthermore, this variable was also significant in the case of TURN 2 since the mid-1980s. From these facts, it is safe to say that seniority rule (turnover by an insider) prevailed among large firms since the oil crisis.

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Shifting our focus to presidential turnover according to period, estimation (1) and (2) correlated well in the HGE as a whole. In the HGE, not only TURN 2 and 3, but also ALL TURN was closely related to corporate performance, and R-square in Table 5 is fairly high by the standards of this kind of regression. However, the fit of the estimation decreased slightly after the oil crisis, and declined sharply in the mid-1980s. In the 1990s, the fit of estimation improved modestly. On the other hand, TURN 3 fit in almost every period, even in the mid-1980s.

These results make it possible to place the finding suggested by Kaplan (1992) in historical perspective. It is true that presidential turnover partly correlated to corporate performance in the 1980s, particularly in the case of TURN 3. However, the correlation of presidential turnover and corporate performance became less distinct than before. Therefore, it could be predicted that the relationship between presidential turnover and corporate performance began to change in the 1970s; it did not fit in the mid-1980s and then was revived again with some changes in the early 1990s.

As for the estimation of directors dispatched from banks, the results of the change (flow) summarized in Table 6 is the same as expected, although statistically less significant than in the later phase of HGE. The flow of bank executives was less sensitive to the interest of the shareholder, while highly sensitive to that of the debtholder. It is safe to say that the higher probability of default inclined the bank to dispatch members to the firm. This trend was established in the early phase of the HGE and was maintained throughout the postwar period. Our results concerning the flow of outside directors is almost consistent with the results of Morck and Nakamura (1992). However, note that the flow of directors dispatched from banks decreased in the mid-1980s and, as a result, the average DM score as a dependent variable decreased from 0.082 in 1977 to 0.050 in 1987. The implications of this will be explained later.

The estimation of the stock of outside directors summarized in Table 7 where the stock of outside directors (DM *out*) and the stock of directors dispatched from banks (DM *bank*) are regressed on leverage (BA) and relatively long-term performance (four year average). DM *out* fitted well by the 1970s, however, note that it lost any correlation with corporate performance in the 1980s. Then it recovered its correlation again in the 1990s. On the other hand, DM*bank* significantly correlated to corpoarate performance and the levarage without the first phase of

HGE[11]. The question then is how to understand these results in terms of the evolution of the contingent governance structure?

6. Overview: Evolution and Change in the Contingent Governance Structure

(1) The First Phase of HGE (1955-64): The Learning Process for Rule among Stakeholders

The first phase of the HGE can be regarded as the period when the contingent governance structure gradually evolved. As long as the performance of companies was good, the pattern of the incumbent president appointing his/her successor from among members of the managing board was maintained. At this time, those who ascended to the presidency in the 1950s in such leading industries as iron and steel, chemicals, and electronics handed down their positions to their successors.

The common pattern seen in these cases was as follows: 1) The successor appointed by the incumbent president was first unofficially selected by the managing board (*jomu-kai*) and then ratified at the shareholders meeting; 2) The former president normally took the position of chairman. It was during this period that the chairman system prevailed in large firms; 3) The new president was normally promoted from the vice-president's position. However, if the executive director (or in rare cases, the managing director) was selected, the board member who had the higher ranking position normally resigned; 4) The official reason expressed for turnover was normally generational change (*wakagaeri*: the restoration of youth), and the reason expressed for selecting the new president was mainly that "he or she had excellent personnel skills," or "had long experience on the shop floor" or, "was endowed with fairness and gave confidence to the employees". Here, we argue that the context of the firm skill was highly important in the selection of the president.[12]

The anecdotes introduced above are consistent with the results given in Table 4 which shows that TURN 1 in this period did not have any negative correlation with performance variables (ROE, RRS, OR, OR/L). As long as the firm's finances were healthy, the top management team freely selected the new president without the intervention of outsiders.

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[11] This fact seems to be consistent with our perspectives that main bank system was in the formation process in the first phase of HGE. However, this result is possibly caused by data bias in 1960 that bank directors are not completely identified, while outside directors are completely identified.
[12] *Zaikai [Business Circle]*, July 1, 1957.

On the other hand, the characteristic of turnover in the early phase of the HGE was the high frequency of TURN 3 which had a significant negative correlation with the interest of the shareholder (ROE, RRS) as well as that of the debtholder (OR, OR/L). This fact suggests another feature of contingent governance in that the bank intervened in management if a company faced financial distress.

Let us introduce a sample case. In this period, there were a few companies faced with financial distress in the coal mining industry due to the energy revolution and chemical development, where the transformation from coal-based chemicals to petrol-based chemicals occurred. Nissan Chemical Inc. failed to keep up with this transformation and tried to restructure their business in 1958. However, the labor union opposed this restructuring plan and went on strike for more than one hundred days. Faced with this serious conflict between management and labor, the main bank of Nissan Chemicals, Fuji Bank and the Industry Bank of Japan (IBJ) assisted the top management by supplying money, dispatching bank executives, and introducing outside directors from related Nissan companies to Nissan Chemicals in 1959. In spite of these efforts, the company did not succeeded in recovering its profitability in 1961. Then the IBJ dispatched its member to Nissan as the president in 1962. In this phase, the control right was completely transferred to the main bank. The new president took the initiative for drastic restructuring, including reducing employees, selling assets, and spinning off unprofitable divisions. As a result, Nissan Chemicals finally began paying dividends again in 1964 (Nissan Kagaku 1969). There were several other cases which showed the same pattern as Nissan.[13]

However, intervention by the main bank during this time still faced difficulties. One of them was that the bank tended to over-intervene in corporate management because the bank excessively stressed the interest of the debtholder. This is partly predicted from the fact that the frequency of TURN 3 was relatively high in this period.

Anecdotally, it is worth mentioning that over-intervention by the bank was socially criticized and, in extreme cases, the bank was prosecuted under the Anti-Trust law. Such was the case in IBJ's intervention in Nihon Yakin in 1953. The intervention of Mitsubishi Bank in Omi Kenshi (a Silk spinning company) was also famous in this period. The incident originated in Mitsubishi Bank's request that the board members of Omi Kenshi resign when a labor strike occurred in Omi.

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[13] Ishihara Industry, Toho Rayon, Nitto Chemical and Nihon Yushi are such cases.

Furthermore, Mitsubishi, as the manager bank of the syndicate loan for new facilities, notified Omi that decision-making would be done by the vice-president dispatched from Mitsubishi bank. Omi criticized this intervention as unfair, and complained to the Fair Trade Commission (FTC). The FTC decided that Mitsubishi's request violated Article 19 of the Anti- Trust law, and demanded that the bank executives resign from the board of Omi (FTC 1968).

Another case where bank over-intervention was challenged as a violation of the Anti-Trust law was Daiwa Bank's intervention of Sogo Department Store. There were several other cases where over-intervention by banks was socially criticized, although the Anti-Trust law was not applied. In this sense, we can say that city banks were still looking for an appropriate intervention strategy in client companies when the latter faced financial distress.

(2) The Later Phase of HGE: Setting up the Rule

It was after the securities recession that the rule concerning the contingent governance structure seems to have been set up. As company profitability deteriorated under the recession of 1964-5, presidential turnover increased. Although the frequency of the turnover from 1965 and 1969 remained at the same level as in the first phase of the HGE, the turnover during 1965 and 1966 accounted for 21 out of 41 cases.

The change in turnover had two different characteristics from the previous period. First, TURN 3 decreased and in three out of eight cases the incumbent outside president was replaced by a new outside director. In contrast to this drastic change, the cases where banks tended to dispatch their members to fill positions above managing directors increased from 26 in the first phase of the HGE to 43 in the later period. Because not only the flow but also the stock of directors dispatched from banks was negatively correlated to the interest of the debtholders, the power of the city banks over poorly performing firms was strengthened.

Second, the turnover in this period showed an increase in TURN 2 where the incumbent president was replaced by an insider, together with a major change in management. There were 11 of these cases in the later period, compared with only 6 in the previous period.

Let us introduce the case of Onoda Cement Inc. When its profitability declined rapidly in 1964 and 1965, the incumbent top management introduced to the "Central Conference between Management and Labor" a restructuring plan calling for a 20% reduction in employment, the suspension of wage-base increases, and the termination of welfare expenditures. Faced with

serious opposition from the labor union, the agreement was not easily implemented. However, the negotiations changed in April 1965 when the top management made it clear that they would change the composition of the corporate board. The rationalization plan, including the selective implementation of an investment plan added to the above agenda, was settled with the labor union in October 1965. In March 1966, the incumbent president (Ando Horoku, who was famous at the time for his aggressive strategies), together with five other board members, resigned and a new president was promoted from within the company, along with two outside directors from Mitsui bank and the IBJ (Onoda 1981). This case suggests that the resignation of the incumbent management team was helpful in implementing the restructuring plan, including a reduction of employment, because the labor union preferred early restructuring by insiders; thereby, avoiding further intervention by banks.

Another example is Mitsubishi Iron and Steel. The company suffered from low profitability in 1964 and decided to completely change its incumbent management team. The chairman was demoted to a consultant (soudan-yaku) without representative right, and the president was demoted to a chairman also without representative right respectively. In addition, three members of executive board resigned while another three were demoted. In their place, an insider (the vice-president) took over the position of president and one outside director was dispatched from Mitsubishi Trade Co. The new president initiated drastic strategic change including: 1) the re-arrangement of multi-divisional organizations; 2) the simplification of organization; and 3) the moving the main branch and production facilities to a new location. The restructuring measures initiated by the new board was, according to the company history, "the drastic reform on which the companies perspectives fully relied" (Mitsubishi Iron and Steel 1985: 558).

The real state of TURN 2, the frequency of which increased in the later phase of the HGE, is represented in the instances described above. As is shown in Tables 4 and 5, TURN 2 was negatively correlated with the proxy of the debtholder's interest (OR) and the proxy of excess employment (OR/L). This fact indicates that when the probability of outsider intervention increased, the insiders tended to voluntarily replace the incumbent top management. Moreover, the changing pattern of presidential turnover in the later phase of the HGE suggests that both the insiders and the main bank had learned a rule appropriate to the contingent governance structure. It is supposed that gradually the bank began to prefer more a sophisticated form of

intervention to that of direct involvement which often caused conflict. On the other hand, because the insiders observed that low profitability led to bank intervention, which involved drastic corporate restructuring, they gradually learned that in order to escape from bank intervention, it was beneficial to take the initiative to combat poor performance. Thus, the contingent governance structure was institutionalized in the sense that the rule concerning the transfer of control right was established.

(3) After the Oil Crisis: The Increasing Weight of Insiders under Dualistic Control

After the oil crisis, the frequency of turnover increased. The peak of presidential turnover was in 1977, when turnover accounted for 15 cases in our sample. This was called "the largest drama of top management turnover in postwar history" at that time.[14] Characteristic of top management turnover in this period was that turnover by insiders (TURN, TURN IN) initially only showed a negative correlation with an increase in employees (ER). This fact indicates that the top management team which took the initiative for restructuring tended to resign, because they could not satisfy the interests of the insiders. As is often pointed out, if the top management in a US firm took the initiative for restructuring and, by doing so, contributed to the firm's recovery, they would enjoy a reputation as talented executives. In contrast, in Japan when the top management implemented a restructuring plan it was often criticized and the management team would resign to take responsibility.

For instance, the incumbent president of Sumitomo Chemicals, one of Japan's largest chemical companies, resigned after he had downsized and spun off the company's aluminum division. The new president of Toyo Cotton Spinning appointed in 1974 had to struggle against the serious recession. He took such restructuring initiatives as reducing employment and selling facilities but, then resigned in 1978. The turnover of Kureha Chemical in 1974 also seems to be a case where the incumbent president resigned for taking charge of employee reduction in 1972-73.

Another characteristic of turnover in this period was that the significance level of negative correlation between turnover (TURN 2 and TURN 3; therefore, BIG TURN) and performance as well as R-square was not as high as in the previous period. This is especially true in the case of TURN 2. Furthermore, ROE which used to maintain a negative correlation with TURN 2 and 3

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[14] *Shukan Toyo keizai [Weekly magazine Toyo keizai]*, June 11 1976.

lost such a correlation. The later result seems to be consistent with the fact that the shareholder stabilization skeep was completed around 1970s. However, the former results seems to be inconsistent with the conventional understanding of the main bank's rescue role following the oil crisis. Our sample included famous cases introduced by Sheard (1989, 1994b) such as Mazda rescued by Sumitomo Bank and NTN (Toyo Bearing Inc.) rescued by Fuji Bank. In spite of these instances, the sensitivity of turnover to OR and OR/L decreased in contrast to the HGE. How can we understand such a result?

One possibility is that there is some bias in our estimation because TURN 2 includes two types of board change composed of 1) change by insiders and 2) change by outsiders. In order to improve our estimation, I divided TURN 2 into TURN2-1 (turnover by insiders with major managing board change by insiders) and TURN 2-2 (turnover by insider with major managing board change by outsiders at the position of senior director or higher). Then, TURN 2-2 was estimated by equation (2) (see Table 8). The result was sufficiently improved so that TURN 2-2 is correlated with OR, and OR/L. It is safe to say that the relationship expressed in Figure 5 (contingent governance structure) played a significant role after oil crisis.[15]

Another reason for reducing the sensitivity of turnover to corporate performance is that bank intervention in poorly performing firms was not necessarily accompanied by presidential turnover. This is supported by the fact that cases where former bank members occupied an executive or higher position without any turnover in the incumbent presidency (BIG CHANGE) increased remarkably after the oil crisis, accounting for 21 cases compared with only 9 in the later phase of the HGE. The right side of Table 8 shows the estimation result of BIG CHANGE by the equation 2. BIG CHANGE in this period is negatively correlated with OR and OR/L. When a company performed poorly, banks placed a member in an influential position on the corporate management team; however, this did not directly lead to presidential turnover. Showa Denko which received executives from Fuji Bank in 1978 and Yasukawa Electronics which received executives from Daiichi Kangyo Bank are examples suggesting that more sophisticated intervention was characteristic of this period.

Why, then, did such a situation occur in this period? One explanation is that sample companies chosen here had already accumulated a large amount of intangible and tangible assets

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[15] On the other hand, TURN 2-1 is correlated with ER, although statistically significant at the 15% level

by this time and, therefore, had the financial capability to cope with short-term financial distress. Following Sheard (1994b), Figure 6 shows the share of gain on the sale and the valuation of securities and tangible assets to after-tax profit since 1965, although there is discontinuity in calculation in 1973 due to changes in the method of counting. It is impressive that this share was over 70 % in 1975 when profitability was at its lowest in this period. The companies implementing a shareholder stabilization policy in the later phase of the HGE, unintentionally reserving disposable securities whose off-record value increased during the course of inflation. Furthermore, the increase in land prices since 1972, under the Japanese Archipelago boom, also led to an increase in off-record value. It is possible that companies overcame financial distress by selling land and securities. This would be the main reason why there was less sensitivity of presidential turnover to operating income at this time than in the HGE.

In general, it is safe to say that if the top management of a Japanese firm is subject to dualistic control by insiders and financial institutions (Aoki 1988), the control right of the insider increased after the oil crisis as far as our sample companies are concerned. Under the rule that control right transfer from insiders to outsiders occurs when corporate performance falls below a threshold point, the increase in the value of intangible and tangible assets gave the incumbent management team a certain amount of disposable funds with which to combat the crisis. In other words, this fund afforded top management some time to restructure their business by themselves instead of on the initiation of the banks. In this sense, we would say that the control transfer point shifted to the left (Figure 5). Since the restructuring initiated by insiders included a reduction in employment, however, the incumbent directors tended to resign after they implemented their restructuring plan.

(4) The mid-1980s: A Certain "Metamorphosis" in the Contingent Governance Structure

The performance of companies decreased after the Plaza Accord of 1985. The ROE declined steeply as is shown in Figure 4, and this was especially true in the case of export-oriented firms such as electronics, automobile and shipbuilding manufacturers. One of the characteristics of the turnover pattern in this period (1985-8) was that the frequency of TURN 3 increased compared with the previous period. However, the majority of TURN 3 in this period were instances where the incumbent outside president was replaced by a new outside president - that

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is, control had already passed to the main bank[16] - or where a company was under the control of large firms from its previous restructuring.[17] There were only four cases where the incumbent inside president was replaced by an outsider.[18] TURN 3 shows negative correlation with performance measures, a result that is supportive by the work of Kaplan (1992), although stock return measure (RRS) in our estimation did not show a negative correlation to turnover.

On the other hand, turnover without TURN 3, namely TURN IN, did not correlate with any dependent variables without the tenure of the incumbent president (LS). This is also the case for ALL TURN. This result is different from those found during the HGE and following the oil crisis. It is worth noting that even TURN 2, which used to show a negative correlation to performance measures, now lost its correlation. This correlation was not improved even when TURN 2 was divided into TURN 2-1 and TURN 2-2. The BIG CHANGE which used to have a negative correlation with performance measures also did not show any significant correlation with them. In contrast to the period after the oil crisis, the board change with outside directors now lost its correlation to corporate performance(Table 8).

The possible reason for this change was first, that there was a change in the incentives of a company receiving outside directors, or in other words, in the incentives of the outsider dispatching their members. In the case of main banks, there was a high probability that they sent their members, not mainly for monitoring incentives, but for managerial labor market incentives. There were a number of cases where the main bank dispatched a member who was supposed to be "excess", and companies treated them as such. Another case in this period was when a company received an outside director from a related quasi-governmental organization. However, this interpretation seems to be inconsistent with the result of Table 6 and 7. Therefore further investigation appears to be needed.

The most likely reason for the decreasing correlation between presidential turnover and performance is that companies were able to overcome their short-term difficulties by selling their off-record tangible and intangible assets as shown in Figure 6. The share of the gain on sales in tangible and intangible assets to after-tax profit increased in 1986, exceeding that of 1975.

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[16] For instance, Meidensha controlled by Sumitomo Bank, Fuji Heavy Industry (IBJ), and Mazda (Sumitomo).
[17] Koyo Seiko is restructuring of their business since the late 1970s with the assistance of Toyota Automobile is one example. Nitto Kagaku under Mitsubishi Rayon and Nihon Kasei under Mitsubishi Kasei are the another example in our sample.
[18] The most famous example in our sample was Hitachi Shipbuilding whose main bank was Sanwa.

Several electronics companies such as Sony, Sanyo, and Sharp had low or even negative operating income but maintained about the same level of ROE and dividend payout ratios as before by selling securities and assets. In these cases, there was no turnover in the incumbent president. It should be kept in mind that firms increasingly improved their capital composition in the 1980's (see Figure 2). Thus, the free disposal of tangible and intangible assets by the incumbent president would have obscured the control transfer point in this period, compared with the post-oil crisis when these assets functioned to shift the control transfer point toward the left side.

On the other hand, the estimation of the flow of outside directors revealed almost the same result as Morck and Nakamura (1992). The flow of directors dispatched from banks negatively correlated to OR and OR/L. The stock negatively correlated to the rate on equity (ROE) and the interest-coverage ratio (OR/R). In addition, its significance level was higher than in the previous period. Furthermore, note that the flow of directors dispatched from banks positively correlated to the leverage ratio (BA), and its change (dBA) in Table 6, and that the stock of directors dispatched from banks correlated to BA in Table 7. This result is outstanding compared with the estimation of other periods. Considering that the number of directors dispatched from banks decreased and the stock of directors dispatched from banks in this period was half as much as in the previous period, one should interpret this high sensitivity from the perspective that the lower the BA (or dBA) the fewer directors were dispatched. As companies depended less on borrowing for their money, the number of directors dispatched from banks declined.

On the whole, our estimation is partially consistent with the result of Kaplan (1992) for presidential turnover and is also consistent with the result of Morck and Nakamura (1992) for directors dispatched from banks. However, it is more important to note that the relationship of presidential turnover to corporate performance in this period was not as sensitive as in the previous period and that companies receiving directors from banks decreased in this period. From this result, it is safe to say that the relationships expressed in Figure 5 became weak among large firms. In other words, firms which were subject to the relationship as shown in Figure 5 decreased in this period. In this sense, we can understand that the contingent governance structure had been metamorphosing in this period.

(5) After the Bubble: Recovery or Conversion?

As the recession, originating in the stock price collapse beginning in 1990 and the land price collapse beginning 1991, began to manifest itself in 1992, corporate performance declined sharply. However, the results are still tentative, because the data in this paper is limited to corporate turnover before 1994, and corporate performance in 1993. Given these constraints, the points to be noted are that the pattern of presidential turnover in this period was composed of two aspects: one, was continuous with the mid-1980s; the other appeared to be new.

The first aspect is that the frequency of turnover by insiders was high, and that the coefficient of the tenure of the incumbent president in the regression of ALL TURN and TURN 1 became much higher than the previous period. It is also the case that a company facing a loss in operating income tended to compensate by selling its off-record assets as is shown in Figure 6. For instance, Ricoh, which fell far behind its rival Canon due to the delay in developing a laser printer, suffered a loss in operating income in 1992. However, it maintained a 1.5% rate on equity and the same dividend level by selling their off-record assets

As in the mid-1980s, the turnover by outsiders was low. Although TURN 3 correlated to performance measure, the net increase of TURN 3 accounted for just one case out of nine. According to Table 8, TURN 2-2 and BIG CHANGE did not closely correlate to corporate performance, although the significance level improved slightly compared to the mid-1980s. This result may indicate that the dispatched bank executives continued to be motivated by managerial labor market incentives.

However, there are also several changes from the previous period. First, TURN 2 which did not correlate to any performance measure in the mid-1980s now recovered its correlation. We should not overlook the fact that TURN 2 correlated to the proxy of the debtholder's interest as well as, although not significantly, to the proxy of the shareholder's interest. This correlation between turnover and the proxy of shareholders' interest was seen in TURN IN, BIG TURN, and ALL TURN. This fact seems to be consistent with the fact that people stressed the shareholder's interest, and that the dividend payout ratio which had a low correlation to the ROE since 1970 recovered its correlation (Miyajima 1996b).

Second, the stock of directors dispatched from banks (DM *bank*) and all outside directors (DM *out*) highly correlated to BA and other performance measures (ROE, ORR). Discipline by outsiders including banks seems to have been strengthened.

As is mentioned above, turnover after the bubble was supposed to have recovered its correlation to corporate performance. The critical question is whether this fact implies that the contingent governance structure has been revived, or whether some changes converging on the Anglo-American type, where shareholders play an important role for governing, has occurred. However, since the data only included the turnover of the year 1994 and corporate performance up to 1993, it is too early to give any definite answer to this question.

7. Concluding Remarks: Further Research Agenda

Resting on the estimation for the relation between the turnover and corporate performance, the discussion in the previous sections suggested a path of evolution and metamorphosis of the contingent governance structure of J-firm since 1955. I conclude this paper by suggesting areas for further research.

The first point is how we understand the role of shareholder's interest in selecting in board members in the post war era. The results of this paper and that of Miyajima (1995a) suggest that presidential turnover correlated to the interest of shareholders in the early 1950s and in the first phase of HGE. It lost its correlation between the late 1960s to 1980s, and then recently recovered its correlation again. This seems to be consistent with the fact that companies faced the possibility of takeover in the early 1960s because the ownership structure was still dispersed due to postwar reform and because firms suffered from low stock issues due to delays in recapitalization. It also seems to support the often cited statement that cross shareholding has been relaxed and that the voice of shareholders such as portfolio investors has been increasing in the early 1990's. However, in both periods, there were no cases of turnover by takeover, and only in rare cases did financial institutions without banks dispatch their members to a client company. The mechanism through which shareholders influenced the selection and policy orientation of the firm is not clear. It is possible to understand that the significant correlation between presidential turnover and the proxy of the shareholder's interest was because the ROE and the RRS unintentionally coincided with the proxy of the debtholder's interest (OR, OR/L).

Clarifying this issue relates to the problem of specifying the relationship between the interest of the main bank for monitoring and the interest of shareholder (general investor). There are two potentially contradictory understandings on this point. One stresses that the main bank was delegated to monitor client companies by other financial institutions taking part in de facto

syndication as well as the shareholders (Prowse 1990 ; Sheard 1994b). The other points out the implicit conflict between the interest of the financial institution (maximizing the loan) and the interest of shareholders (maximizing the value of the firm). Consequently, to clarify the historical change in the viewpoint of the main bank for monitoring would be one important area of further research.

Further study also must explicitly introduce a time horizon among stakeholders of the firm as Kaplan tried (1994). As is discussed in the introduction, long-term thinking was often stressed by researchers as one of the characteristics of the J-firm, compared with short-term thinking or the myopic time horizon of Anglo-American style corporate management (Stein 1988). As Sheard (1995) pointed out, however, this point has never been tested in empirical studies thus far. Historically, it is expected that the time horizon of stakeholders should be longer as contingent governance evolves. In addition to this paper's analysis that regressed the turnover on two-year averages of corporate performance, further examinations of estimations on turnover on one-year and four-year corporate performance would hopefully clarify the time horizon of the stakeholders for the selection of top management.

Finally, investigating the corporate governance structure of Japanese firms in historical perspective from the standpoint of reverse causal relationships is also necessary. That is, whether a company in which the control right was transferred from insider to outsider really improved its performance through restructuring and changed management strategy. Clarification of this was attempted by Morck and Nakamura (1992) for the 1980s and Sakano and Lewin (1996) for the early 1990s[19]. For historical perspectives, this point is especially important because the rescue operation of the main bank may have a positive effect on the national economy by preserving the firm's specific assets including human capital (Aoki 1994a). Another reason for examining different aspects is that the rescue of the main bank may contribute to maintaining the fierce level of competition among oligopolists which has been peculiar to postwar Japan (Yamazaki 1991).

From the limited samples in this paper, there are certainly several cases where, after intervention by the main bank, a firm's performance improved and control was transferred back

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[19] Morck and Nakamura (1992) support the positive effect of bank intervention. However, Sakano and Lewin (1996) reports that strategic re-orientation or organization restructuring was not observable in the first two years of the new president.

to insiders. However, there are also several cases where companies could not improve their performance despite intervention so the main bank maintained continuous control. It is undeniable that rescue by the main bank may possibly maintain a company that should be liquidated or merged with other companies. The efficiency gain through rescuing the poorly performing firm by the main bank should be another agenda for further investigation.

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Figure 1   Distribution of Stockholdings in all listed
            Nonfinancial Companies by Type of Investor
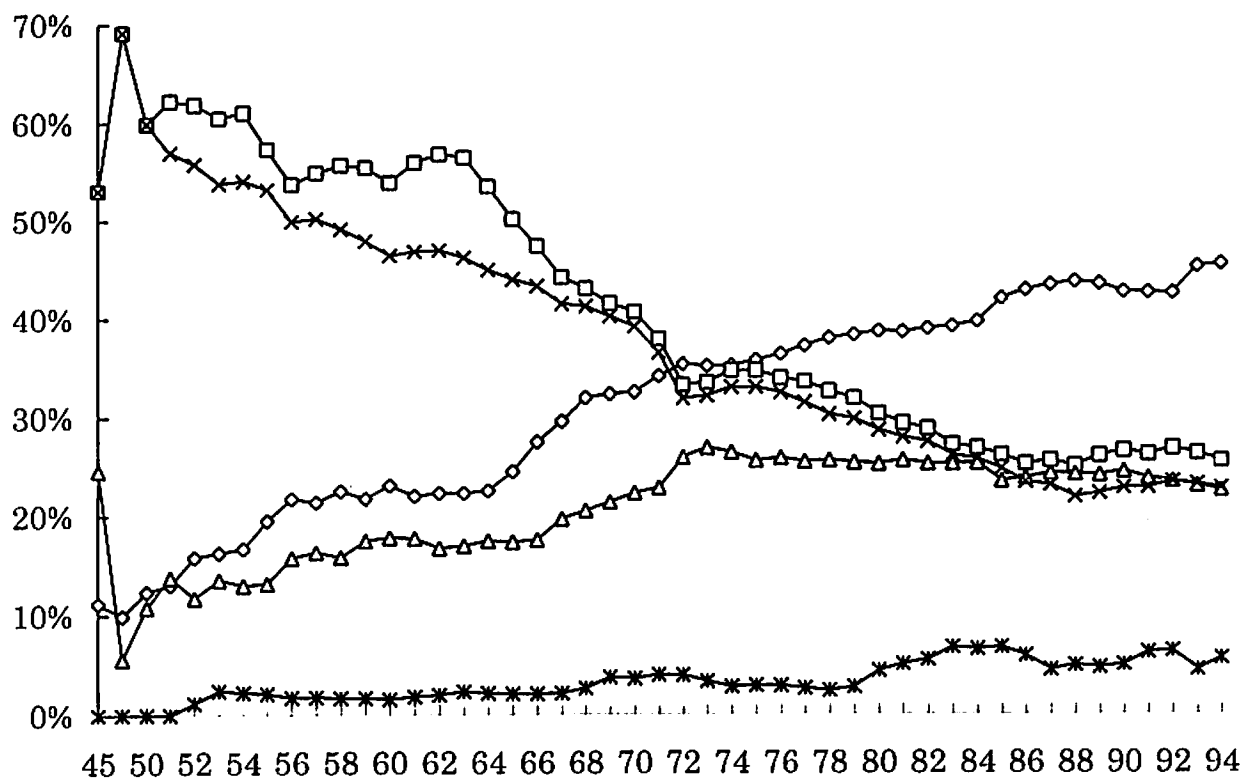
—◇— Financial Instituton

—□— Individual+Investment Trust

—△— Business Corporation

—✳— Individuals

—✳— Foreginer

Source ;Nomura (1996)

Figure 2 Borrowing-Asset Ratio
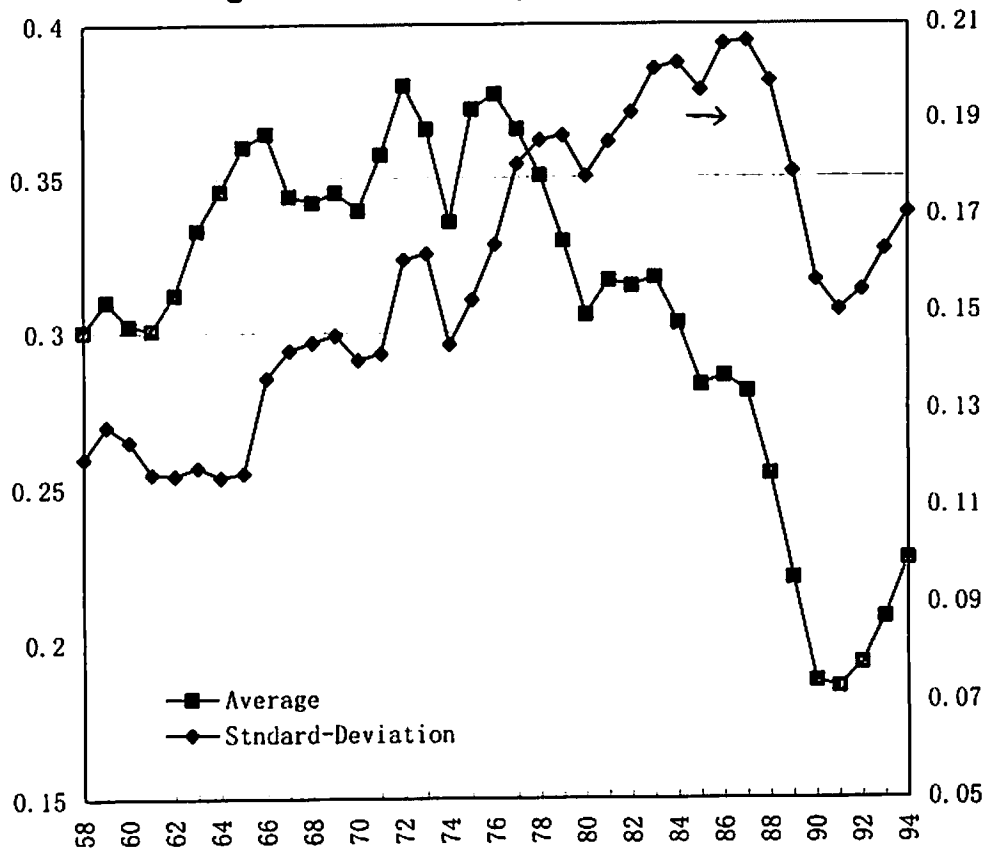
Source; JDB Corporate Finance Data Bank

Note; Sample are 204 large companies in manufacturing
sector,

Figure 3 Indices of Corporate Finance (All Industries)

Indices of Corporate Finance (A)

—◆— (Internal Fund + External Fund) / Equipment Investment   —■— Internal Fund / Equipment Investment

Indices of Corporate Finance (B)

☐External Fund
■Internal Fund
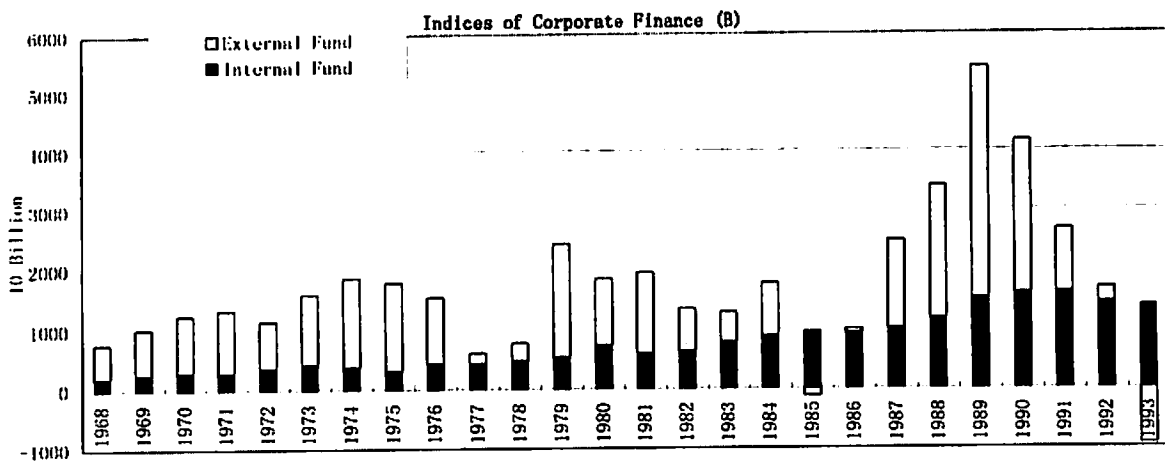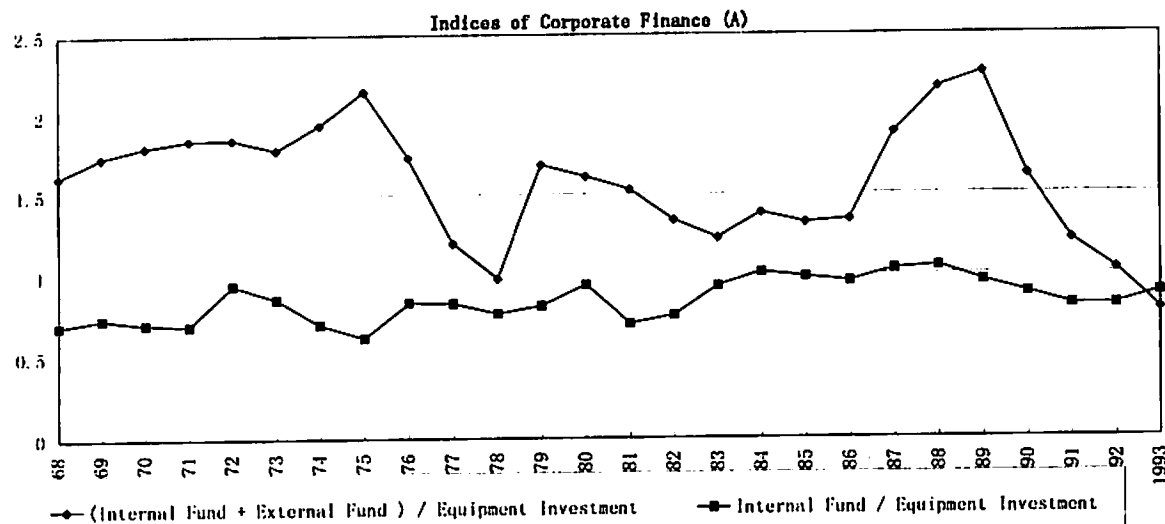
note)
Internal Fund = Depreciation + Voluntary Reserve
External Fund = Increase of Capital Stock + Bond Floatation + Long-term Bond +Short-Term Debt

Indices of Corporate Finance (C)

■Increas of Capital Stock
☐Bond Floatation
☐Long-term Debt
■Short-term Debt
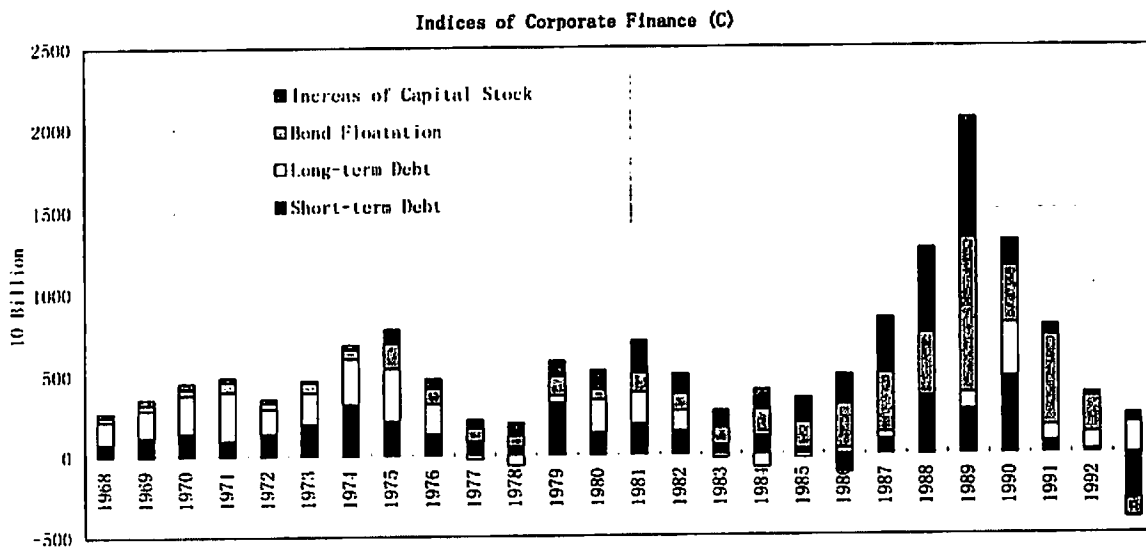
note)
Sample composed of roughly 630 large cpmpanies
Data Soure: *Economic Statistics Annual1969-1991*, Bank of Japan

Table 1　Average and Standard Deviation of Firm Financial and Governance Characteristics of 100 Large Companies

(million yen;%)

	1960		1968		1977		1987		1993	
	Avg	Std.	Avg	Std.	Avg	Std.	Avg	Std.	Avg	Std.
Sales	20,734	18,203	67,122	58,896	207,194	195,043	356,794	32,489	464,296	567,861
Total asset	23,645	22,056	75,733	77,031	221,590	258,786	359,250	04,005	519,971	591,005
Number of emloyees	6,296	5,795	8,435	9,003	8,377	9,817	7,683	10,183	7,861	10,501
Debt	16,224	15,211	58,215	59,892	182,458	228,592	249,461	05,165	331,455	399,483
Equity	7,420	7,453	17,518	18,647	39,131	41,610	109,790	31,624	188,515	235,030
Dividend	413	430	1,004	1,254	914	1,203	1,571	2,034	2,013	2,717
After tax profit	792	922	2,027	2,263	2,969	4,526	5,383	10,712	5,219	11,873
Rate of return on equity	10.7%		11.6%		7.6%		4.9%		2.8%	
Debt-equity ratio	2.57	1.39	4.70	6.37	5.87	3.61	3.33	2.72	2.55	1.91
Dividend / after tax profit	0.52		0.50		0.31		0.29		0.39	
President; birth year	1898.5	6.7	1904.3	6.8	1912.4	5.1	1923.8	4.4	1929.3	4.7
President; year when she/he took its position	1950.8	6.9	1959.5	7.9	1971.6	6.0	1983.0	4.2	1988.7	4.2
; year when she/he took part in board	1943.4	6.9	1950.4	9.4	1960.0	9.0	1972.6	7.1	1979.1	6.8
; age	61.5	6.7	63.7	6.8	**64.6**	5.1	63.2	4.4	63.1	8.1
Tenure as a president	**9.1**	6.8	8.6	7.9	5.4	6.0	4.0	4.2	4.3	4.2
Tenure as a board member	16.6	6.9	**17.6**	9.4	16.9	9.0	14.4	7.1	13.9	6.8
Length of time require to become president	7.4	6.6	9.0	6.9	**11.5**	6.8	10.3	6.0	9.3	5.4
Number of outside presidents among samples	12		15		13		11		10.0	
Number of board members	13.4	3.7	16.7	2.2	18.4	1.9	20.6	1.9	**22.2**	1.9
Number of outside directors	1.4	2.0	2.2	2.2	1.9	2.3	1.9	2.3	1.9	2.2
Number of ouside auditors	1.2	0.8	0.6	0.6	0.6	0.8	0.6	0.8	0.7	0.9
Outside directors / No. of board members	10.0%	14.5%	**14.4%**	14.9%	10.5%	12.5%	9.9%	13.5%	9.3%	12.6%
No. of employees / No. of board members	462.4	355.7	492.5	406.7	302.7	171.4	326.9	348.9	303.2	298.4

Sources；　Yukashoken Houkokusho(Japanese10-Ks), JDB Coporate Financial Data bank

- 1 -

Table 2   Turnover of President (Summary)

	1959-63	1965-69	1974-78	1984-88	1990-94
N	500	490	485	480	480
All TURN frequency	43 8.6%	41 8.4%	67 13.8%	72 15.0%	69 14.4%
TURN IN	28 65.1%	33 80.5%	60 89.6%	59 81.9%	60 87.0%
TURN 1	22 51.2%	22 53.7%	41 61.2%	47 65.3%	51 73.9%
TURN 2	6 14.0%	11 26.8%	19 28.4%	12 16.7%	13 18.8%
Turn 2-1	4	5	10	5	2
Turn 2-2	2	6	9	7	11
TURN 3	15 34.9%	8 19.5%	7 10.4%	13 18.1%	9 13.0%
Turn 3-1	15	5	4	4	1
Turn 3-2	0	3	3	9	8
BIG TURN = TURN 2 + TURN 3	21 48.8%	19 46.3%	26 38.8%	25 34.7%	· 22 31.9%
BIG CHANGE	5	10	22	10	12

Note : **TURN 1**: the president was replaced by an insider without major change in the managing board directors.

TURN 2: the president was replaced by an insider and there was also major change in the managing board.   Major change means three or more directors were replaced or demoted.

TURN 2-1: the turnover by an insider with major change in the managing board by insider.

TURN 2-2: the turnover by an insider with major change in the managing board by outsiders at the position of senior managing director or higher.

TURN 3:   the company president was replaced by an outsider.

TURN 3-1: Turnover of outsider president from insider president

TURN 3-2: Turnover of outsider president from outsider president

BIG TURN = TURN 2 +TURN 3

All TURN = TURN 1 + TURN 2 +TURN 3

Table3 The Flow and Stock of the executives dispatched from Bank

(A) Number of outsider directors dispatched from banks (flow and stock at the end of period)

	59	60	61	62	63	flow total	stock 1963
President	1	1	2	0	0	4	5
Vice President, Senior Director	-1	1	3	2	3	8	9
Managing Director	4	1	0	1	3	9	17
Auditor	-1	0	4	4	5	12	21
Vice President, Senior Director	1	4	-1	3	1	7	15
Managing Director	3	2	3	3	6	17	26
Director, Auditor	0	4	3	7	6	20	36

	65	66	67	68	69	flow total	stock 1969
President	0	2	1	0	0	3	4
Vice President, Senior Director	6	1	5	2	3	17	24
Managing Director	3	1	0	-1	-2	1	19
Auditor	-2	3	1	6	-1	7	15
Vice President, Senior Director	2	3	3	1	3	12	26
Managing Director	9	2	5	1	1	18	43
Director, Auditor	0	6	4	7	2	19	41

	74	75	76	77	78	flow total	stock 1978
President	1	0	0	0	1	1	4
Vice President, Senior Director	3	6	3	1	3	16	19
Managing Director	0	3	0	4	1	8	28
Auditor	-1	3	0	5	1	8	20
Vice President, Senior Director	9	6	3	3	1	22	42
Managing Director	3	9	3	5	4	24	47
Director, Auditor	0	6	4	7	2	19	62

	84	85	86	87	88	flow total	stock 1988
President	0	2	0	0	1	3	4
Vice President, Senior Director	2	0	1	5	5	13	20
Managing Director	0	5	4	-2	-4	3	11
Auditor	-1	-2	1	1	1	0	10
Vice President, Senior Director	2	0	0	0	2	4	21
Managing Director	2	5	5	3	1	16	31
Director, Auditor	1	-1	1	1	3	4	31

	90	91	92	93	94	flow total	stock 1994
President	0	0	0	0	0	0	0
Vice President, Senior Director	1	5	1	5	-2	10	19
Managing Director	-1	1	-2	-2	2	-2	8
Auditor	3	-2	6	-2	-1	4	20
Vice President, Senior Director	4	2	2	3	6	17	25
Managing Director	0	6	-1	3	0	8	31
Director, Auditor	7	0	8	1	5	21	31

(B) Number of companies receiving bank executives (Stock)

	1958	63	69	78	88	94
No. Companies receiving bank executives	23	36	53	50	40	46
Receiving one bank executives	21	20	34	16	22	27
two	2	14	13	18	11	14
over three		2	6	16	7	5
Receiving bank executives as President	1	5	4	4	4	0
Vice President, Senior Director, Managing Director	9	19	30	33	20	22
Director, Auditor	13	12	19	13	16	24

Surce:) Yukashoken Houkokusho(Japanese 10-K), "Shokuinroku", Diamond Co. Ltd.

Note:)
1. As for sample companies, see text.
2. The procedure is as follows:; first taking 1958, 64, 73, 83 as a bench mark year, we confirm bank executives as those who were dispatched from outsider in the previous five years. Then we check increase and decrease of the directors dispatched from bank in the following years. The board members who were dispatched over five year ago are treated as insiders. The case where the director dispatched from banks is promoted within five years is treated as the inverse.

2

Table 4 Turnover of President and Corporate Performance

Model : Turnover=a1 + a2 unique-performance + a3 average performance
+ a4 LS

	1959−63	1965−69	1974−78	1984−88	1990−94
ALL TURN	1 =43	1 =41	1 =67	1 =72	1 =69
ROE	− **a	− **d	+	+	− **d
RRS	−	−	−	−	− **c
ER	−	−	− **c	+	−
SR	− **a	− **b	+ **b	−	+
OR	− **b	− **a	+	−	− **c
OR/L	−	− **a	−	−	− **b
BA	−	+ **c	+	+ **d	+ **c
dBA	+	+ **d	+	+	−
LS	+ **a	+	+ **a	+ **a	+ **a
TURN IN	1=28	1=33	1=60	1=59	1=60
ROE	−	+	+	+	−
RRS	+	−	−	+	− **b
ER	+	−	− **b	−	−
SR	− **a	− **c	+	−	−
OR	−	−	+	−	−
OR/L	+	+ **d	−	−	− **c
BA	−	+	−	+	+
dBA	+	+	+	+	−
LS	+ **a	+	+ **a	+ **a	+ **a
TURN1	1=22	1=22	1=41	1=47	1=51
ROE	+	+	+	+	+
RRS	+	−	−	+	− **d
ER	+	−	−**c	+	−
SR	− **a	− **d	+	−	−
OR	+	−	+ **b	−	−
OR/L	+ **b	−	+	−	−
BA	−	+	−	+ **d	+ **b
dBA	+	+	+	−	−
LS	+ **b	+	+ **a	+ **a	+ **a
TURN 2	1= 6	1=11	1=19	1=12	1=13
ROE	− **a	−	−	+	− **a
RRS	+	+	−	− **d	− **b
ER	− **d	−	−		
SR	− **d	−	+ **c	+	+
OR	− **b	− **b	− **b	−	− **a
OR/L	− **c	− **b	− **b	−	− **a
BA	+	−	+	−	−
dBA	+	+	+ **d	+ **c	−
LS	+ **a	+	−	+ **d	+ **c

TURN 3	1=15	1=8	1=7	1=13	1=9
ROE	− **a	− **b	+	−	−
RRS	− **c	−	−	−	+
ER	− **b	− **a	−	−	−
SR	− **c	−	+ **a	−	+ **c
OR	− **a	− **a	− **c	− **b	− **c
OR/L	− **a	− **a	− **c	− **b	− **d
BA	−	+ **a	+ **c	+	+
dBA	−	+ **d	−	+	−
LS	+	+	+	+	+

BIG TURN	1=21	1=19	1=26	1=25	1=22
ROE	− **a	− **b	+	−	− **a
RRS	− **c	−	−	− **c	−
ER	− **a	− **b	−	−	−
SR	− **a	− **c	+ **a	−	+ **d
OR	− **a	− **a	− **c	− **b	− **a
OR/L	− **a	− **a	− **b	− **b	− **a
BA	+	+ **b	+ **b	+	+
dBA	−	+ **c	−	+ **c	−
LS	+ **b	+	+	+ **d	+ **d

Estimation method: OLS

Source : JDB Corporate Finance Data Bank

Note: 1. Definition of dependent variables are as follows;

TURN 1: the president was replaced by an insider without major change in the managing board directors.

TURN 2: the president was replaced by an insider and there was also major change in the managing board.   Major change means three or more directors were replaced or demoted.

TURN 3:   the company president was replaced by an outsider.

TURN IN: TURN 1+ TURN 2

BIG TURN = TURN 2 +TURN 3

All TURN = TURN 1 + TURN 2 +TURN 3

2. Definition of independent variables;

ROE = after tax profit / equity   **RRS** = rate of return on stock

OR = operating income / sales   **OR/L** = operating income / number of employee

BA = leverage ratio(borrowing/assets)   **dBA** = BA t/BA t-1 -1

SR = growth rate of rate of sales   **ER** = growth rate of employee

LS = the tenure of incumbent president

3. Significant level;   ** a   1% **b 5% ** c 10%   **d 15%

4 **LS** is calculated by a model TURN 1 =a1 + a2 unique.ROE+a3.ROE + LS.   Other model gives same result.)

Table 5 Turnover of President and Corporate Performance

Model : Turnover=a1 + a2 unique-performance + a3 average perfpormance
+a4 DA + a5 dDA

	58-63 (1)	58-63 (2)	65-69 (1)	65-69 (2)	74-78 (1)	74-78 (2)	84-88 (1)	84-88 (2)	90-94 (1)	90-94 (2)
All Turn										
LS	0.053	0.023	0.0159	0.019	0.022	0.025	0.068	0.065	0.099	0.097
	(2.984)a	(2.867)a	(1.475)d	(1.730)c	(1.956)c	(2.227)b	(4.182)a	(4.060)a	(5.008)a	(5.003)a
ROE	-4.960	-4.513	-0.157	-0.152	0.346	0.246	0.929	0.571	-0.053	-0.074
	(-3.433)a	(-3.114)a	(-1.510)d	(-1.473)d	(0.666)	(0.546)	(0.788)	(0.509)	(-0.033)	(-0.048)
SR	-2.055	--	-1.581	--	1.044	--	-0.728	--	0.375	--
	(-2.710)a		(-1.694)c		(1.926)c		(-0.971)		(0.603)	
ER	—	-0.073	--	-2.048	--	-2.151	--	0.046	--	-0.246
		(-0.085)		(-1.422)d		(-1.876)c		(0.031)		(-0.85)
OR	—	-1.676	--	-5.491	--	1.311	--	-1.193	--	-4.432
		(-0.677)		(-2.112)b		(0.652)		(-0.587)		(-1.581)d
OR/L	0.6234	--	-0.589	--	-0.144	--	-0.041	--	-0.071	--
	(1.677)c		(-2.202)b		(-0.192)		(-1.134)		(-1.778)c	
BA	-0.152	-0.140	0.147	0.112	0.206	0.109	0.493	0.539	0.771	0.731
	(-1.296)d	(-1.178)	(1.312)d	(0.957)	(0.333)	(0.177)	(0.137)	(1.212)	(1.486)d	(1.421)d
dBA	-0.346	-0.245	0.314	0.316	0.619	0.378	0.086	0.085	-0.019	-0.021
	(-0.612)	(-0.459)	(0.542)	(0.545)	(1.313)d	(0.845)	(0.848)	(0.859)	(-0.154)	(-0.171)
R2	0.11	0.08	0.06	0.06	0.050	0.040	0.040	0.030	0.067	0.065
Turn In										
LS	0.040	0.038	0.0135	0.016	0.211	0.024	0.067	0.066	0.1	0.095
	(3.061)a	(2.935)a	(1.175)	(1.341)d	(1.853)c	(2.093)b	(4.124)a	(4.034)a	(4.947)	(4.876)
ROE	-0.247	-0.759	0.299	0.327	0.189	0.114	1.009	0.673	0.252	-0.097
	(-0.113)	(-0.381)	(0.347)	(0.365)	(0.385)	(0.027)	(0.791)	(0.550)	(0.155)	(-0.062)
SR	-2.604	--	-1.522	--	0.673	--	-0.489	--	-0.257	--
	(-2.878)a		(-1.479)d		(1.182)		(-0.629)		(-0.341)	
ER	--	0.439	--	-1.123	--	-2.548	--	0.209	--	-0.239
		(0.464)		(-0.737)		(-2.159)b		(0.136)		(-0.833)
OR	--	-1.628	--	-3.690	--	2.680	—	0.207	--	-3.475
		(-0.571)		(-1.256)		(1.274)		(0.098)		(-1.215)
OR/L	0.588	--	-0.368	--	0.002	--	-0.025	--	-0.064	
	(1.422)d		(-1.285)d		(0.027)		(-0.547)		(-1.580)d	
BA	-0.015	-0.026	0.046	0.045	-0.904	-0.253	0.506	0.571	0.684	0.631
	(-0.129)d	(-0.249)	(0.323)	(0.310)	(-0.142)	(-0.394)	(1.140)	(1.251)	(1.282)	(1.185)
dBA	--	0.134	--	0.436	0.735	0.583	0.085	0.085	-0.025	-0.026
		(0.258)		(0.661)	(1.524)d	(1.243)	(0.838)	(0.861)	(-0.186)	(-0.207)
R2	0.06	0.03	0.02	0.02	0.04	0.05	0.04	0.04	0.07	0.070
Turn l										
LS	0.028	0.025	0.013	0.0141	0.025	0.028	0.068	0.066	0.093	0.089
	(1.939)c	(1.818)c	(1.001)	(1.117)	(2.145)b	(2.322)b	(4.002)a	(3.917)a	(4.549)a	(4.464)a
ROE	-0.390	-0.894	0.705	0.732	0.117	-0.089	0.576	0.364	2.555	2.139
	(-0.158)	(-0.420)	(0.604)	(0.613)	(0.216)	(-0.193)	(0.457)	(0.292)	(1.233)	(1.065)
SR	-2.631	--	-1.618	--	0.527	--	-0.701	--	-0.376	--
	(-2.751)a		(-1.418)d		(0.897)		(-0.811)		(-0.477)	
ER	--	0.848	--	-1.100	--	-2.166	--	0.077	--	-0.267
		(0.859)		(-0.663)		(-1.695)c		(0.047)		(-0.902)
OR	--	0.191	--	-1.484	--	4.411	--	0.48	--	-3.334
		(0.066)		(-0.477)		(1.921)c		(0.218)		(-1.102)
OR/L	0.989	--	-0.147	--	0.064	--	-0.011	--	-0.06	--
	(2.196)b		(-0.500)		(0.783)		(-0.293)		(-1.453)d	
BA	-0.233	-0.112	0.835	0.101	-0.623	-0.726	0.756	0.806	0.99	0.956
	(-0.675)	(-0.482)	(0.579)	(0.685)	(-0.925)	(-1.067)	(1.516)d	(1.578)d	(1.815)c	(1.754)c
dBA	-0.067	0.094	0.287	0.370	0.839	0.696	-0.430	-0.370	-0.024	-0.024
	(-0.113)	(0.171)	(0.417)	(0.528)	(1.678)c	(1.418)d	(-1.004)	(-0.901)	(-0.166)	(-0.182)
R2	0.06	0.02	0.01	0.01	0.050	0.070	0.03	0.03	0.06	0.070

Turn 2

	58-63 (1)	58-63 (2)	65-69 (1)	65-69 (2)	74-78 (1)	74-78 (2)	84-88 (1)	84-88 (2)	90-94 (1)	90-94 (2)
LS	0.058	0.080	0.021	0.014	-0.116	-0.007	0.028	0.030	0.089	0.068
	(2.705)a	(2.776)a	(0.972)	(0.683)	(-0.491)	(-0.315)	(0.931)	(1.002)	(1.825)c	(1.622)d
ROE	-6.153	-6.698	0.374	0.123	0.827	0.570	3.586	1.982	-3.985	-4.592
	(-2.043)b	(-2.171)b	(0.307)	(0.149)	(0.958)	(0.866)	(1.124)	(0.690)	(-1.475)	(-1.967)c
SR	-0.972	--	-0.593	--	2.144	--	0.055	--	0.244	--
	(-0.535)		(-0.335)		(2.019)b		(0.044)		(0.143)	
ER	--	-0.598	--	-0.476	--	-1.490	--	1.324	--	0.117
		(-0.272)		(-0.179)		(-0.830)		(0.482)		(0.379)
OR	--	-9.637	--	-13.169	--	-4.621	—	-2.102	—	-8.727
		(-1.360)d		(-2.060)b		(-1.355)d		(-0.448)		(-1.266)
OR/L	-1.280	--	-2.209	--	-0.221	--	-0.107	--	-0.214	—
	(-0.921)		(-2.116)b		(-1.639)d		(-1.194)		(-1.629)d	
BA	-0.115	-0.144	-7.464	-15.955	2.185	1.047	-0.184	-0.043	-2.261	-2.200
	(-0.941)	(-1.136)	(-0.003)	(-0.006)	(1.718)c	(0.953)	(-0.178)	(-0.041)	(-1.195)	(-1.261)
dBA	0.524	0.738	--	16.714	1.141	1.182	0.214	0.218	-0.081	-0.056
	(0.472)	(0.661)		(0.007)	(1.067)	(1.275)	(1.833)c	(1.904)c	(-0.153)	(-0.182)
R2	0.09	0.08	0.05	0.02	0.05	0.04	0.11	0.11	0.13	0.103

Turn 3

	58-63 (1)	58-63 (2)	65-69 (1)	65-69 (2)	74-78 (1)	74-78 (2)	84-88 (1)	84-88 (2)	90-94 (1)	90-94 (2)
LS	0.011	0.015	0.214	0.026	0.015	0.009	0.018	0.014	0.082	0.080
	(0.561)	(0.754)	(0.978)	(1.082)	(0.397)	(0.265)	(0.465)	(0.338)	(1.325)	(1.354)
ROE	-8.966	-7.417	-0.206	-0.194	1.484	1.209	2.461	2.116	-0.871	-0.545
	(-3.498)a	(-2.806)a	(-1.684)c	(-1.707)c	(1.195)	(1.575)d	(-0.83)	(0.843)	(-0.155)	(-0.094)
SR	-0.699	--	-0.793	--	5.313	--	-1.278	--	1.556	--
	(-0.651)		(-0.441)		(2.546)b		(-0.777)	(0.338)	(1.531)d	
ER	--	-2.091	--	-5.488	--	-0.276	--	-0.607	--	1.380
		(-1.400)d		(-1.736)c		(-0.919)		(-0.184)		(0.234)
OR	--	-2.436	--	-15.858	--	-8.000	--	-9.435	--	-15.276
		(-0.596)		(-2.431)b		(-1.376)d		(-1.892)c		(-1.502)d
OR/L	-0.871	--	-2.688	--	-0.382	--	-0.173	--	-0.206	--
	(-0.106)		(-2.656)a		(-1.282)d		(-1.723)c		(-1.212)	
BA	-0.506	-0.507	0.407	0.276	2.826	3.642	0.151	0.201	1.584	2.125
	(-0.828)	(-0.877)	(2.094)b	(1.421)	(1.194)	(1.761)c	(0.134)	(0.177)	(1.091)	(1.336)
dBA	-1.717	-1.718	1.318	0.709	--	-0.934	0.066	0.035	-0.003	-0.004
	(-1.544)d	(-1.585)d	(1.003)	(0.577)		(-0.639)	(0.178)	(0.096)	(-0.083)	(-0.057)
R2	0.19	0.18	0.20	0.18	0.16	0.04	0.07	0.03	0.131	0.038

Big Turn

	58-63 (1)	58-63 (2)	65-69 (1)	65-69 (2)	74-78 (1)	74-78 (2)	84-88 (1)	84-88 (2)	90-94 (1)	90-94 (2)
LS	0.036	0.043	0.022	0.021	-0.004	0.001	0.029	0.031	0.0584	0.051
	(2.325)b	(2.552)b	(1.368)d	(1.268)	(-0.187)	(0.057)	(1.076)	(1.119)	(1.863)c	(1.744)c
ROE	-7.383	-6.395	-0.181	-0.178	0.947	0.918	2.899	1.701	-3.882	-3.630
	(-3.614)a	(-3.090)a	(-1.612)d	(-1.639)d	(1.290)d	(1.406)d	(1.234)	(0.853)	(-1.780)c	(-1.830)c
SR	-1.079	--	-1.081	--	2.511	--	-0.702	--	1.296	--
	(-1.087)		(-0.791)		(2.596)a		(-0.630)		(1.629)d	
ER	--	-2.210	--	-2.887	--	-1.662	--	0.263	--	0.089
		(-1.666)c		(-1.303)d		(-0.968)		(0.115)		(0.317)
OR	--	-4.599	--	-14.615	--	-6.022	--	-6.804	--	-7.759
		(-1.209)		(-3.221)a		(-1.835)c		(-1.769)c		(-1.595)d
OR/L	-0.706	--	-2.614	--	-0.257	--	-0.159	--	4.421	
	(-0.940)		(-3.582)a		(-1.944)c		(-2.135)b		(0.860)	
BA	-0.157	-0.139	0.269	0.138	2.924	2.331	-0.007	0.055	-0.49	-0.396
	(-1.432)d	(-1.174)	(1.696)c	(0.916)	(2.295)b	(2.024)b	(-0.009)	(0.064)	(-0.474)	(-0.420)
dBA	0.890	-0.899	1.203	0.666	-0.025	-0.295	0.204	0.198	-0.011	-0.028
	(-1.006)	(-1.061)	(1.209)	(0.768)	(-0.025)	(-0.363)	(1.801)c	(1.829)c	(-0.041)	(-0.106)
R2	0.18	0.18	0.16	0.14	0.06	0.04	0.08	0.07	0.09	0.065

Note: As for difinition of Turnover and independent varables, see Table 4.

Table 6 Increase (flow) in the number of Bank Directors and Corporate Performance

Model : $DM = a_1 + a_2Vi + a_3BA + a_4dBA$

	1959-63	1965-69	1974-78	1984-88
DM score				
RRS	−	−	−	+
ROE	−	−	−	+
OR	− **b	− **c	− **b	− **a
OR/L	− **c	−	− **c	− **b
BA	+ **b	+	+	+
dBA	+	+	+	+ **c
DM-Score/No. of board members				
RRS	−	−	−	+
ROE	−	−	−	−
OR	− **c	− **b	− **b	− **a
OR/L	− **b	−	− **c	− **b
BA	+ **b	+	+	+ **c
dBA	−	+ **d	+	+ **d

Source: Yukashoken Houkokusho (Japanese10-Ks), JDB Corporate Finance Data Bank

Note: a, b, c and d mean significant level at 1%, 5%, 10%, 15% respectively.

Estimation Method: OLS

Dependent Variables: Score is calculated by aggregating points which is given to outside directors according to their position.

President	5point	Chairman, Vice President, Senior Director	3point
Managing Director	2point	Director	1point
Auditor	0.5point		

Independent Variables(Vi):

RRS: Rate of Return on Stocks   ROE: Rate of return on equity

OR: Operating Income Rate = Operating Income / Sales   OR/L: OR／Number of Employees

BA: the leverage ratio (borrowing/ assets)   dBA: BA_t /BA_{t-1}

Table 7 Stock of Outside Directors and Corporate Performance

Model : $DM = a_1 + a_2 Vi + a_3 Subdum$

$DM_{bank} = a_1 + a_2 V$

DM_{out} : Aggregated points given to outsider director according to position / no. of board members

	1960	1968	1977	1987	1993
Number of obs.	94	97	94	101	96
Average of obs.	0.165	0.254	0.189	0.187	0.184
BA	0.402	0.356	0.261	0.097	0.305
t-stat.	(1.887)b	(1.653)	(2.238)b	(0.793)	(3.052)a
R^2	0.233	0.219	0.292	0.165	0.570
ROE	-1.462	-0.203	-0.101	-0.126	-0.772
t-stat.	(-3.503)a	(-2.889)a	(-1.177)	(-0.234)	(-2.131)b
R^2	0.297	0.261	0.264	0.160	0.549
ORR	-0.777	-0.031	-0.017	-0.005	-0.007
t-stat.	(-1.886)b	(-1.512)	(-1.044)	(-1.324)	(-2.131)b
R^2	0.233	0.215	0.262	0.174	0.549

DM_{bank} : Aggregated points given to bank directors according to their position / no. of board members

	85	87	84	90	86
Number of obs.	85	87	84	90	86
Average of obs.	0.049	0.086	0.082	0.050	0.047
BA	0.090	0.130	0.122	0.113	0.113
t-stat.	(0.864)	(1.412)	(1.487)	(2.647)a	(2.654)a
R^2	-0.003	0.011	0.014	0.063	0.066
ROE	-0.294	-0.532	-0.083	-0.397	-0.346
t-stat.	(-1.338)	(-3.095)a	(-1.517)	(-1.641)c	(-2.226)b
R^2	0.009	0.091	0.015	0.019	0.044
ORR	-0.001	-0.013	-0.017	-0.002	-0.003
t-stat.	(-0.371)	(-1.522)	(-1.634)c	(-1.454)	(-1.950)b
R^2	-0.011	0.015	0.020		0.032

Source: Yukashoken Houkokusho (Japanese 10-Ks), JDB Corporate Finance Data Bank

Note: 1 a, b, c and d mean significant level at 1%, 5%, 10%, 15% respectively

2 The procedure for calculating DM score is same as Table 6.

3. ORR is the interest coverage ratio.

4. Subdum is a dummy variable which is one if a company is a subsidiary company, otherwise zero.

Table 8 The raltionship between turnover by insider with major board change by outsiders at the position of senior managing director or higher(TUNR 2-2), the board change by outsiders without presidential turnover(BIG CHANGE) to corporate performance (after oil crisis)

Model : Turnover = a1 + a2 unique-performance + a3 average-performance +a4 B/A + a5 dB/A

	TURN2-2 74-78 (1)	(2)	TURN2-2 83-88 (1)	(2)	TURN2-2 89-94 (1)	(2)	BIGCHANGE 74-78 (1)	(2)	BIGCHANGE 83-88 (1)	(2)	BIGCHANGE 89-94 (1)	(2)
LS	-0.022 (-0.777)	-0.020 (-0.705)	0.073 (2.741)a	0.073 (2.733)a	0.057 (1.605)c	0.037 (1.164)	--	--	--	--	--	--
ROE	0.978 (-1.046)	0.920 (1.021)	4.862 (1.538)	3.584 (1.302)	1.128 (0.427)	-1.558 (-0.673)	0.758 (1.179)	0.659 (1.054)	0.304 (0.136)	-0.084 (-0.040)	-1.366 (-0.588)	-0.662 (-0.278)
SR	1.620 (1.594)	--	0.391 (0.307)	--	-1.116 (-0.912)	--	-0.367 (-0.426)	--	1.613 (1.442)	--	0.642 (0.721)	--
ER	--	0.179 (0.078)	--	1.551 (0.45)	--	-0.097 (-0.259)	--	0.254 (0.158)	--	1.007 (0.347)	--	0.027 (0.025)
OR	--	-9.580 (-2.151)b	--	-6.771 (-1.372)	--	-1.776 (-0.383)	--	-6.209 (-2.239)b	--	-2.129 (-0.512)	--	-8.538 (-1.444)
OR/L	-0.278 (-1.762)c	--	-0.142 (-1.532)	--	-0.210 (-1.957)b	--	-0.245 (-2.272)b	--	-0.049 (-0.617)	--	-0.103 (-1.079)	--
BA	-0.065 (-0.051)	-0.724 (-0.592)	-0.468 (-0.43)	-0.341 (-0.308)	0.171 (0.174)	0.247 (0.26)	1.272 (1.347)	1.068 (1.171)	1.336 (1.505)	1.200 (1.306)	1.336 (1.499)	1.201 (1.348)
dBA	1.911 (1.551)	1.594 (1.500)	-0.047 (-0.239)	-0.046 (-0.226)	-0.038 (-0.086)	-0.048 (-0.173)	0.794 (0.989)	0.897 (1.184)	-0.204 (-0.413)	-0.293 (-0.443)	-0.387 (-0.516)	-0.429 (-0.557)
R2	0.041	0.027	0.032	0.035	0.009	0.010	0.060	0.059	0.081	0.064	0.078	0.091

Source: JDB Corporate Finance Data Bank
Note: As for definition of turnover and independent variables, see text and Table 4.

Appendix 1 Correlation Matrix of Dependent Variables

1957-62

Correlation Matrix

	NPR1	NRRS	NTSR	NER	NOR1	NORER
NROE	1.000					
NRRS	0.210	1.000				
NTSR	0.374	0.254	1.000			
NER	0.449	0.245	0.631	1.000		
NOR	0.418	0.107	0.126	0.136	1.000	
NOR/L	0.438	-0.056	0.102	0.276	0.349	1.000

1963-68'

Correlation Matrix

	NPR1	NRRS	NTSR	NER	NOR1	NORER
NROE	1.000					
NRRS	0.032	1.000				
NTSR	0.075	0.207	1.000			
NER	0.114	0.173	0.520	1.000		
NOR	0.121	0.242	0.105	0.217	1.000	
NOR/L	0.093	0.209	0.123	0.206	0.595	1.000

1972-77

Correlation Matrix

	NPR1	NRRS	NTSR	NER	NOR1	NORER
NROE	1.000					
NRRS	0.104	1.000				
NTSR	-0.107	0.072	1.000			
NER	0.078	0.226	0.209	1.000		
NOR	-0.022	0.357	-0.097	0.236	1.000	
NOR/L	-0.042	0.303	-0.060	0.254	0.798	1.000

1982-87

Correlation Matrix

	NPR1	NRRS	NTSR	NER	NOR1	NORER
NROE	1.000					
NRRS	0.151	1.000				
NTSR	0.060	0.004	1.000			
NER	0.327	0.021	0.190	1.000		
NOR	0.431	0.116	0.017	0.284	1.000	
NOR/L	0.435	0.155	-0.053	0.200	0.778	1.000

1988-1993

Correlation Matrix

	NPR1	NRRS	NTSR	NER	NOR1	NORER
NROE	1.000					
NRRS	0.295	1.000				
NTSR	0.110	0.066	1.000			
NER	0.037	-0.066	0.259	1.000		
NOR	0.533	0.216	-0.029	0.016	1.000	
NOR/L	0.517	0.145	-0.051	0.025	0.729	1.000

Note: All variables are two year average. They are normalized by
calculating the difference from industry average based on JDB code.
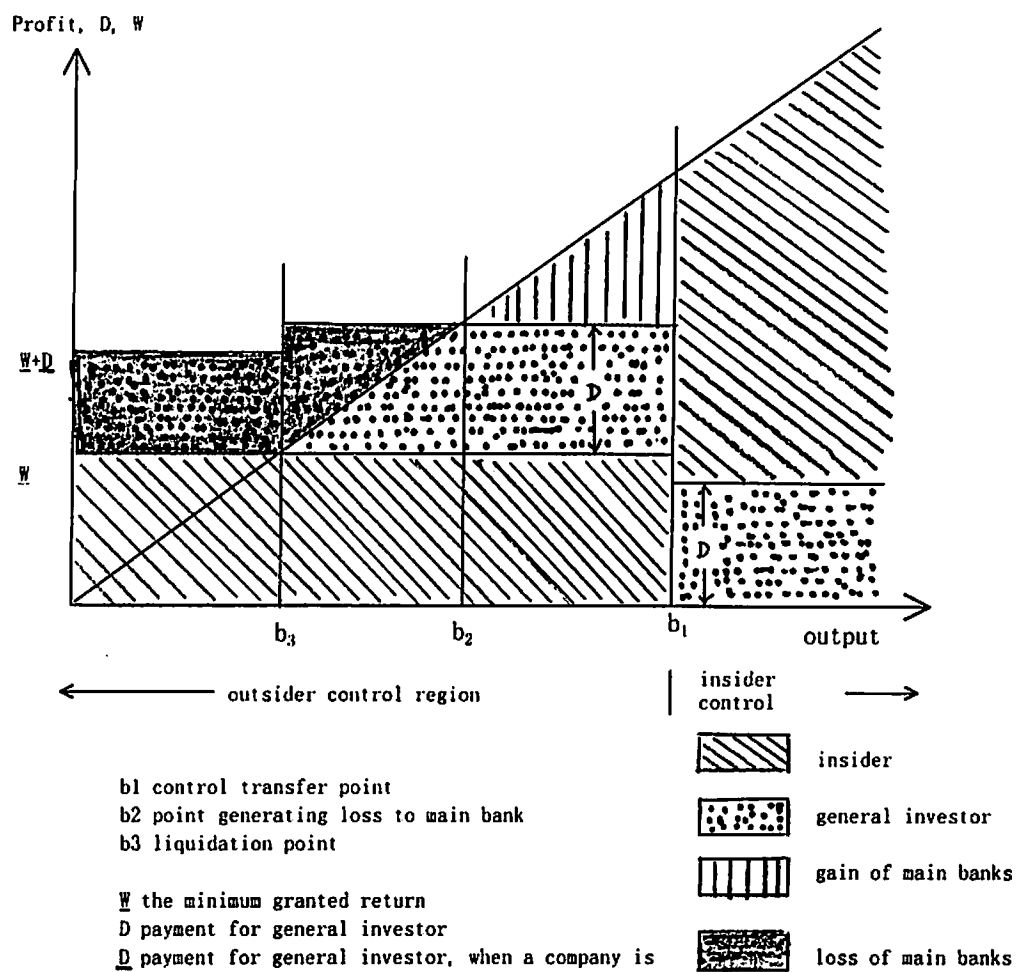As for definition of variables, see Table 4.

Figure 4 The Trend of ROE and ROA in the Postwar ERA.
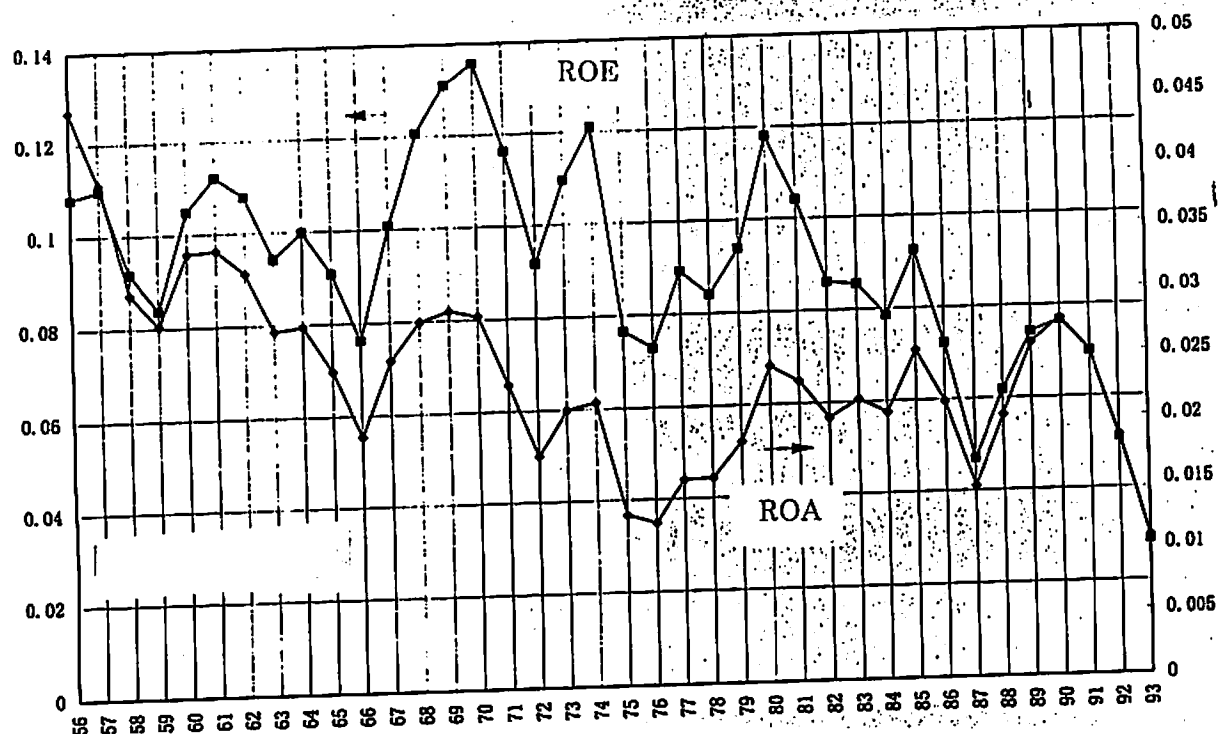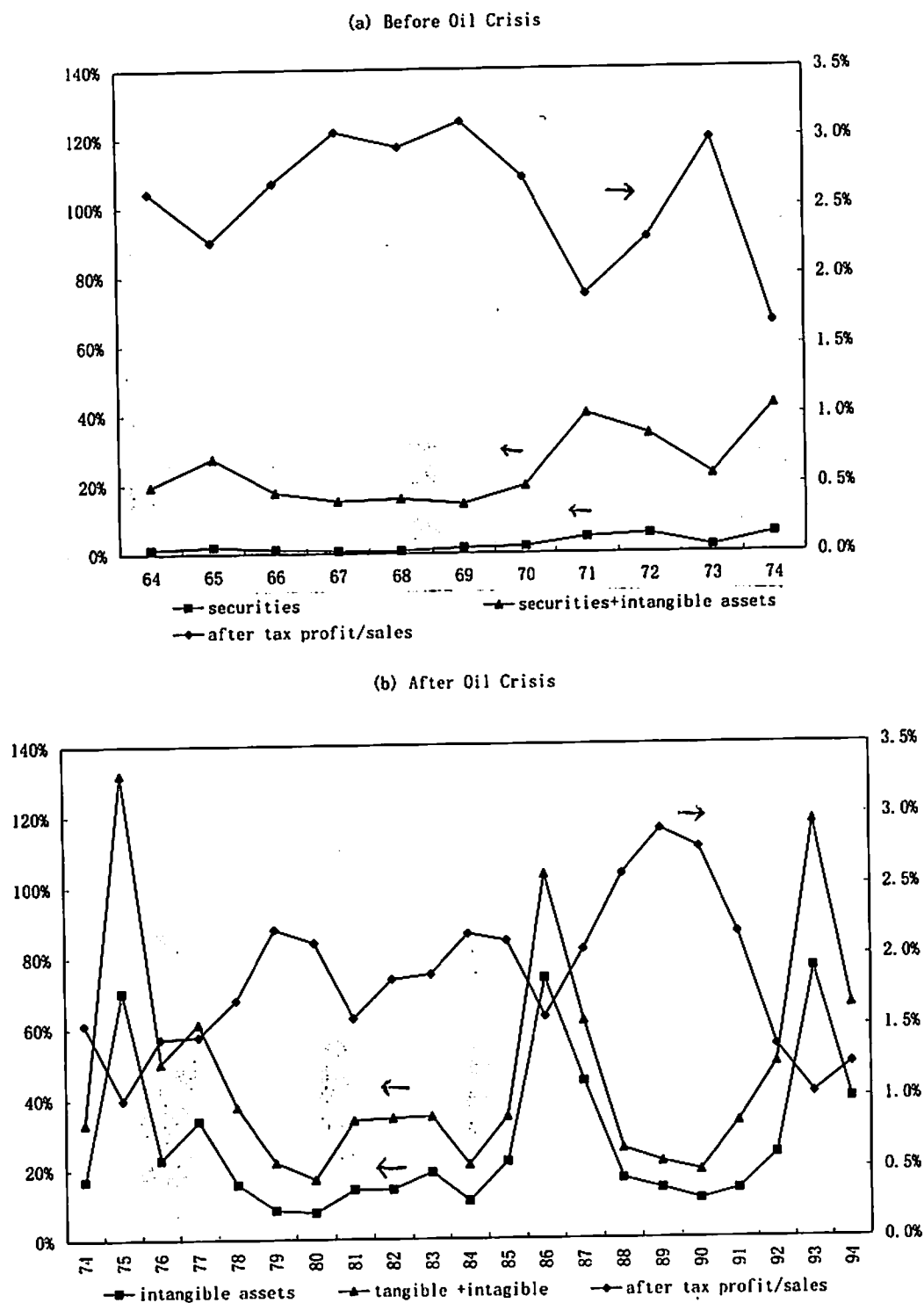

Source; JDB Corporate Finance Data Base.

Note: Sample companies are 204 companies which ranked top 150 on the assets base in either 1957,1964, or 1972

Figure 5 Contingent Governance Structure

Profit, D, W

W+D

W

b₃   b₂   b₁   output

⟵———— outsider control region | insider control ⟶

b1 control transfer point
b2 point generating loss to main bank
b3 liquidation point

W̲ the minimum granted return
D payment for general investor
D̲ payment for general investor, when a company is liquidated.

Source: Aoki 1995 p.110; Aoki and Okuno 1996 p.212

insider

general investor

gain of main banks

loss of main banks

Figure 6 Gain on Sales in securities and intangible assets to after tax profit

(a) Before Oil Crisis

—■— securities   —▲—securities+intangible assets

—◆—after tax profit/sales

(b) After Oil Crisis

—■— intangible assets   —▲— tangible +intagible   —◆—after tax profit/sales

Source: Bank of Japan, *Economic Statistics Annual*

Note 1 The gain on sales in securities before oil crisis might include the gain on sales in securities in special account.

2 The gain on sales in securities after oil crisis aggregates the gain on sale in both non-operating income account and special account