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Corporate Governance

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Editorial Committee:
TANAKA Nobuyuki
Ian MARTIN

Japanese-English Translation:
Tony HILL
Ian MARTIN

Comments

Please send any comments or queries you might have regarding the translation of the articles in this issue to:

Ian Martin: mart@iss.u-tokyo.ac.jp
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All inquiries to:

Social Science Japan
Institute of Social Science
University of Tokyo
Hongo 7-3-1, Bunkyo-ku
Tokyo 113-0033 JAPAN
Tel +81 3 5841-4931
Fax +81 3 5841-4905
Electronic mail:
ssjinfo@iss.u-tokyo.ac.jp

Cover Photo

The Chief Executives of Tokyo Tele-Messages bow at a press conference following the company's bankruptcy, May 1999. Compliments of the Mainichi Shimbun.

Back Cover Photo

The Hatsujima Club luxury resort in Shizuoka prefecture, the construction of which was abandoned following the indictment of the Nagano Bank's board of directors, May 1999. Compliments of the Mainichi Shimbun.

Editorial Notes

Personal Names

All personal names are given in the customary order in the native language of the person unless otherwise requested. Hence in Japanese names, the family name is given first, e.g. MORI Yoshiro, and in Western names the family name is given second, e.g. Oliver HARDY.

Romanization

Due to software limitations circumflexes are used in place of macrons, and omitted in most personal and place names.

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Corporate Governance?

Given the prolonged serial drama of company bankruptcies, management scandals and executive negligence that the Japanese public has been enjoying of late, one might feel justified in applying an epithet more along the lines of 'corporate calamity' to the state of company management in Japan. A harsh judgement, perhaps? Be that as it may, in Japan's case 'corporate governance', particularly as it has come to be understood in the West, remains a rather nebulous concept. The articles in this issue of *Social Science Japan* certainly caution against lackadaisical application of academic buzzwords to regions or countries where the terminology concerned lacks its own, or has a different, conceptual history. More than this, however, KUDO Akira, NITTA Michio, and TORIYAMA Kyoichi's papers are part of a relatively recent effort in Japan to clarify concepts and terms relevant to the corporate governance debate in Japan. By focusing on such questions as "In whose interests are Japanese corporations managed?" and "How is company law interpreted?" these articles contribute to the definition of a terminology of corporate governance relevant not only to Japan but to cross-border analyses of this subject area. One can but hope that this debate does not remain confined to academic circles, and that advances in theoretical understanding will be mirrored by effective and appropriate legislative reform. And on that note, let me take this opportunity to wish you all a belated Happy New Year!

Ian MARTIN
Managing Editor

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Approaches to Corporate Governance: the ISS-Sheffield Workshop on Corporate Governance from an Asian-European Perspective. March 17-18, 2001

KUDO Akira

Japanese corporations, which became the object of international admiration after the two oil crises of the 1970s, having experienced the period of concentrated stock market and real estate speculation, or 'bubble economy', of the late 1980s and its subsequent collapse in 1990 and 1991, have endured a further ten crisis-ridden years. For those of us who have observed the drastic changes during this relatively short time-period, there are three questions concerning Japanese corporations that beg an answer. The first concerns the underlying reasons for the remarkable progress achieved in the ten years following the first oil crisis in 1973. The second covers the characteristics of business management that caused or encouraged the bubble economy during the latter half of the 1980s and, thirdly, we need to look at how the same management style then contributed to the prolonged economic stagnation of the 1990s.

In March this year we will be holding the ISS-Sheffield Workshop on Corporate Governance in Asian-European Perspective in Sheffield, the United Kingdom. The workshop will be part of the research project headed by KIKKAWA Takeo (Japanese Corporations in the 1990s - one of the complementary projects in our current Institute-wide Joint Research Project), and will take the above issues as its points of departure, aiming initially to compare the Japanese case with that of several Western European nations.

These three issue areas can be tackled through the application of a number of approaches. Firstly, if we turn our attention to the ownership and management of corporations (by examining shareholder-management relations) and also to their financial affairs (by examining creditor-management relations), the application of corporate governance theory would seem to be a most effective approach. This approach, which traces its origins to the United States, has spread to Western Europe and East Asia. In Japan, it is mainly creditor-management relations, rather than shareholder-management relations, which have been debated, and they have been debated in the context of the main bank debate, focusing on evaluations of main bank monitoring functions.

Incidentally, in the case of the United States, where corporate governance theory originated, we can see that it was the product of an historical process that began in the 1960s and 1970s. Further, an examination of individual cases in the United States reveals that we need to focus not only on issues of ownership and management, but also on industrial relations. In practice, moreover, it has become evident that the reorganisation of owner-management relations requires, directly or indirectly, the reorganisation of industrial relations. In Japan, too, voices calling for the reconstruction of 'co-



KUDO Akira is a Professor of the German Economy and the History of International Business Relations at the Institute of Social Science, University of Tokyo.

Institute of Social Science
University of Tokyo
Hongo 7-3-1
Bunkyo-ku
Tokyo 113-0033
JAPAN
kudo@iss.u-tokyo.ac.jp

Approaches to Corporate Governance *continued*

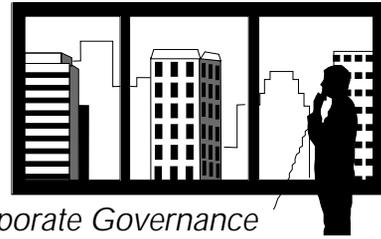
operative' industrial relations, previously regarded as the source of Japanese corporations' success, have become louder and more insistent.

The inclusion of such issues, then, causes a widening of the debate to cover business management as a whole. By considering, furthermore, inter-corporate and corporate-government relations, it becomes evident that we have begun to engage in a comprehensive re-examination of the business environment. Something that might provide a clue for furthering our understanding of this broadened debate is the so-called convergence-divergence controversy, which debates the convergence or divergence of national economies amid economic globalisation. Both the convergence camps and divergence camps possess a hard-line element, which, naturally enough, comes across as holding sway in either camp.

In order to evaluate this convergence-divergence controversy, however, it is necessary to return to the roots of the debate and evaluate economic globalisation itself. To put it another way, rather than the debate becoming mired in a static comparison of convergence and divergence, it should address itself to a more dynamic debate that asks what it is that is behind, and prompting, convergence. The origins of economic globalisation, the process thereof, and its results, must be discussed. In doing so, we must take into account the transfiguration of the international political, military and economic systems as evidenced by, for example, the end of the East-West Cold War, the frequent outbreak of local or regional conflict in its wake, and the advance of regional integration; and such issues as technological progress, focusing on information and communications technologies; the lasting debt of the United States' international balance of payments and the international monetary systems; and the sharp contrast between the US economy and the economies of Western Europe and East Asia. We would also do well to consider so-called global issues such as the environment and security.

It is the United States that stands situated at the heart of the globalisation process. And one of the chief messages we have been hearing from the United States has been that of corporate governance.

This workshop, therefore, taking the three questions regarding Japanese corporations as its starting point and applying, initially, an approach based on corporate governance theory, must concern itself with the issues and with the broader debate referred to above, in order to get to grips with the points of contention in corporate governance theory. Then it must, as a matter of course, afford the same weight to industrial relations as it does to ownership issues and financial affairs.



Furthermore, rather than discussing in greater detail what ought to be done next, we must address ourselves to a thorough investigation of what exactly has taken place with regard to corporate governance during the last decade.

This question must first be answered with respect to the United States, and we must be clear on whether a connection existed between corporate governance and the robustness of the US economy and, if so, its extent and the process thereof must also be clarified. We should then similarly address the situation in Japan and Western Europe. In Japan's case, the discussion will, most likely, focus on whether or not there has been any transformation in the business groups that have traditionally secured cross share-holding, or in industrial relations that have traditionally aimed at mutual cooperation; if there has, what kind of shift has occurred; and what bearing these points have had on the prolonged economic stagnation of the past decade.

The chief participants in the workshop will be Andrew GAMBLE, HASEGAWA Harukiyo, HIDAKA Chikage, HIKINO Takashi, KIKKAWA Takeo, KUDO Akira, William LAZONICK, Mary O'SULLIVAN, Andrew TYLECOTE, and Franz WALDENBERGER, just achieving a representation from the United States, Japan and Western Europe. Incorporating the perspectives of the rest of East Asia, and comparing East Asia with Western Europe will be our next task. More than anything else, the workshop aims to consolidate a foundation for future international joint research by developing consensus on issues such as those described above. □

Corporate Governance, Japanese Style: Roles of Employees and Unions

NITTA Michio



NITTA Michio is a Professor of Industrial Relations at the Institute of Social Science, University of Tokyo.
Institute of Social Science
University of Tokyo
Hongo 7-3-1
Bunkyo-ku
Tokyo 113-0033
JAPAN
nitta@iss.u-tokyo.ac.jp

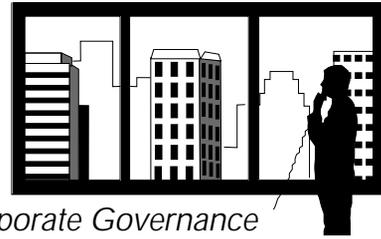
Corporate Governance - the Japanese Model

It has been generally accepted that the corporate governance of large Japanese companies differs from that in other countries to such an extent that it is possible to discern a distinct 'Japanese Style' of corporate governance. In this system, shareholder 'control based on ownership' has failed to be realised. Rather, a form of corporate governance whereby independent control is exerted by a management strongly influenced by employee-group interests has come to be the norm. For specific features of this system, one might consider, for example, the internal promotion system by means of which the management is selected; the dominant position of a small number of executives in the boardroom; the emphasis placed on stable shareholdings through cross-holding and other means; the priority given to indirect financing; and the near-irrelevance of the concept that companies belong to their shareholders.

The RIALS (Research Institute for Advancement of Living Standards) Survey

Nevertheless, in matters concerning this given model of Japanese corporate governance, in particular in its actual operations, there is insufficient data available for academic research since it is only a small number of top management executives who have access to information. There is not even enough data for the analysis of international comparisons. With this situation in mind, the release last year of the results of the RIALS survey (INAGAMI *et al.*, 2000), in which this author participated, was highly appraised as an important step in the advancement of social science research concerning these issues. The survey, carried out in January and February 1999, succeeded in amassing responses, on such topics as relations with shareholders and how the board of directors operates, from the top management (managing director level or above) of 731 companies out of a total of 1307 major companies listed on the first-section of the Tokyo Stock Exchange.

For a detailed analysis of the responses please refer to the above volume. As for the conclusions, it was found that despite the fact that we have witnessed change in certain quarters, the Japanese model of corporate governance described above remains generally applicable to the current state of affairs. For example, 719 out of 731 companies confirmed the existence of stable shareholdings.² Out of those 719, 66.5% indicated that stable shareholdings accounted for in excess of 50% of the total ownership ratio. Moreover, over three-quarters reported that more than half the members of the board of directors were long serving company employees promoted from within.



Corporate Governance

How Does One Dismiss a CEO?

It is worth noting that research on the state of corporate governance in Japan is still in its infancy. Even given that which the RIALS survey has clarified, there remains much to be investigated. For example: the concept of corporate governance is interpreted in a variety of ways and there is no one definition thereof. Nevertheless, it is surely the case that one of its most important functions is to maintain management discipline. One aspect of such regulation would be the dismissal of an incompetent, or non-performing, CEO. What would it take, then, for an incompetent CEO to be dismissed from a large Japanese company, and by what process? Would the question of dismissal even arise in the first place?

Needless to say, in Japanese corporate law, the election and dismissal of the person responsible for company management (usually the company president, who holds executive rights) is the prerogative of the board of directors, and it is the annual general meeting (AGM) of shareholders that elects the members of the board. Formally, therefore, one might expect the dismissal of a company president to be carried out according to the wishes of the AGM or the board of directors. In actual fact, however, this rarely takes place. It is, rather, widely believed that a chief executive who is able to weaken the influence of the shareholders, supported by a solid system of stable and cross-shareholdings, has practical control over the election of board members and is able to see off any threats to his position. This system of corporate governance - 'Japanese style' - has even been said to resemble the relationship in the former Soviet Union between the Communist Party leader and the Politburo or the Party Central Committee.

However, were this to be so, the leader, as was the case in the former Soviet Communist Party, would be able to ensure, dictatorially, that he retained his position of leadership over the long-term. There would be no change of leader unless political conditions deteriorated to a considerable degree. Does this reflect the state of Japanese corporate governance? In fact, Japanese company presidents' terms of office are not quite that long. There are, of course, exceptions to the rule; however, they generally enjoy terms of six to eight years. Why might this be? Moreover, if it were impossible to enforce the dismissal of a chief executive with a below par track record, this would, clearly, pose problems for the company's growth and even threaten its existence. So how, then, have such situations been avoided?

One device to ensure against a CEO holding power for too long is the term of office system. This system, which, by fixing the president's term of office by means of company by-laws or customs, eventually forces a president out of office irrespective of his track record, guarantees that non-performing



Notes

- ¹ Rengô Sôken.
- ² 'Antei kabunushi': long-term ("stable") investors or cross-shareholders.

Notes

³ *Dô yatte neko no kubi ni
suzu wo tsukeru no
ka?*

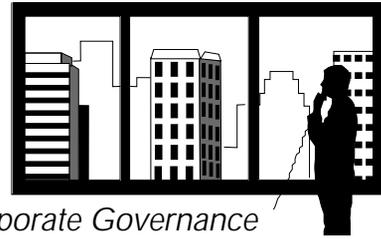
executives do not remain in office forever. However, in the case of the RIALS survey, in response to a question concerning whether the terms of office of top executives are fixed or not, 35.6% companies replied in the affirmative, 39.1% in the negative, with a further 24.1% unable to say one way or the other, which leads one to conclude that it cannot be said for certain that the term of office system is functioning in the majority of large companies in Japan.

We must conclude, therefore, that there remains much research to be done on the question of how incompetent chief executives are dismissed; of how to, as it were, 'attach a bell to the cat's neck'³ - a question crucial to our understanding of Japanese corporate governance. A possible course of action to address this gap in our understanding would be to research cases of such dismissals, investigate thoroughly the particulars thereof, and analyse them accordingly. Such research, however, would likely prove difficult due to the complexities of gathering reliable information on such cases.

Main Bank or Employees?

One representative theory concerning Japanese corporate governance is that espoused by AOKI Masahiro (AOKI, 1988). According to this theory, it is the main bank that is the principal actor in regulating and monitoring management. Accordingly, one might infer that it would be the main bank, representing shareholders and creditors, which would request the dismissal of an incompetent chief executive. In fact, in recent incidents such as the management reshuffles at Sogo and Daiei, it is clear even from newspaper coverage that the respective main banks appear to have played decisive roles. However, in both these cases, main bank intervention was late, and seems not to have occurred until the companies concerned were already on the brink of receivership. There remains a need for research that will clarify exactly how the main banks functioned as monitors *before* matters came to a head. Incidentally, according to the RIALS survey, in response to a question concerning the relative importance of the input of large shareholders and parent companies in the election of the company president, subsidiary and affiliated companies aside, more than 60% disregarded such input as a relevant factor.

Another significant actor that can be cited in the monitoring and dismissal of non-performing management in Japan is the employees as a group. There are even cases in which enterprise-based unions have taken action on the part of employee groups. There has been little research to date on the particulars of such incidents.



CEO Dismissal Case I: the Mitsukoshi Incident

For example, in the most dramatic instance of a company president's dismissal in Japan - the dismissal on September 22, 1982 of Mitsukoshi President OKADA - the actions and statements of a director representing the Mitsui Bank have been widely recognised, and often raised, as examples of effective main bank monitoring. Be that as it may, according to KAWAMURA Mitsugu (KAWAMURA, 1985), who was the Mitsukoshi legal adviser at the time and was, therefore, privy to inside information, the principal actors in Okada's dismissal were internal directors and those in the highest echelons of management. Regardless of the fact that the majority of these had been appointed by Okada himself, with a sense of crisis *vis-à-vis* the management growing among the employees, they united in secret mutiny and succeeded in a *coup d'état* by means of a unanimous resolution calling for the president's dismissal. The main bank played, at best, a supporting role. It is also worth noting that the one significant statement made expressing the employees' sense of crisis was issued by the labour union representing Mitsukoshi employees.

CEO Dismissal Case II: The Yukijirushi (Snow Brand) Incident

As a more recent example, the resignation of the President of Yukijirushi Corporation is of particular interest. As has been widely reported in the media, the outbreak of Yukijirushi dairy product contamination on June 27, 2000 caused major shock throughout the nation due both to the extent of the damage and the exposure of slipshod quality control. As a result, President ISHIKAWA announced his intention to resign on July 5. As regards the details of the process leading to this announcement, there is an excellent article in *Shukan Bunshun* magazine (*Shukan Bunshun*, 2000). Unlike the literature on the Mitsukoshi incident, news sources are unclear in this article, leaving room for doubt over the veracity of the details. This notwithstanding, there is no mistaking that the article was written based on details and specifics obtained from inside information.

In this incident, it was the incompetence of executive crisis management, as well as the seriousness of the incident itself, that came under criticism. Following a string of blunders such as a tardy response to the contamination outbreak and a series of social gaffes in press conferences on the 1st and 4th of July, Ishikawa came under severe public censure. Then, on the evening of July 4, there was an incident in the customer services department of the company's Western Japan branch, which Ishikawa was visiting in order to encourage his employees. A female employee working in the customer complaints section turned to the president and yelled, "What on earth are you thinking, boss?! How about you try taking a complaint for once!" (*Shachô, nani wo kangaeteirun desu ka?! Ichido, jibun ga kujô wo ukete miro!*).



Notes

⁴ 'Former manager' here has been translated from the acronym 'OB' (Old Boy), which refers, in Japanese, to a former senior (*senpai*) from high school, university, or company [Ed.]

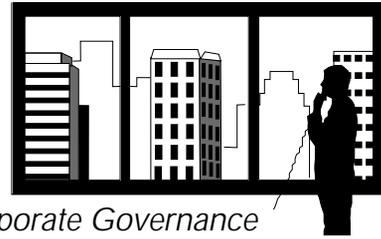
⁵ *Ibid.*

This outburst precipitated a simultaneous revolt by all 200 staff in the room, who began blaming Ishikawa for the company's woes, and the management completely lost control. The following day, on his return to Tokyo Headquarters, Ishikawa was confronted by one of his secretaries with the greeting, "So are you trying to destroy this company then, boss?" (*Shachô, kaisha wo tsubusu ki desu ka?*). Later that day, Ishikawa was admitted to hospital directly after receiving a telephone call from a former manager⁴ urging him to resign and it seems that it was shortly thereafter that he announced his intention to do so.

One must wonder about how reliable this report is its presentation of the details of the process leading to Ishikawa's dismissal; however, it seems clear that the cast of this resignation drama - those who attached the bell to the cat's neck - comprised, in fact, company employees and former management.⁵ It seems that neither the main bank nor the board of directors played much of a part at all. Actually, the majority of the board of directors assumed joint responsibility with the president and also resigned. What this incident does reveal, however, is the importance to the chief executive of a large Japanese corporation of gaining the trust of his employees as a prerequisite for maintaining his own position. Once this trust is lost, the CEO finds himself standing on shaky ground.

Conclusion

The two incidents described above can, however, be seen as untypical cases with their own distinct features. In order to answer the question of how executives in large Japanese corporations are dismissed, and of whether the system for so doing functions effectively or not, much more research is needed. Nevertheless, it is clear from the above discussion that investigation into how the expectations and demands of employees are relayed to the management is vital to our understanding of Japanese corporate governance in practice. Even in the Sogo case, it has been noted that there existed a certain relationship between the management and the labour union chairperson who had represented Sogo employees over a long period, such that the union did not take appropriate steps to monitor company management, and that this contributed to the breakdown of the management system. When discussing the reform of Japanese corporate governance, much attention is paid to the issue of how best to reflect the preferences of shareholders; however, we would do well also to consider the voice of the employees, and their influence on company management. □



Corporate Governance

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Corporate Governance and Japanese Company Law

TORIYAMA Kyoichi



TORIYAMA Kyoichi is a Professor of Commercial Law in the School of Law, Waseda University.

School of Law
Waseda University
Nishi-Waseda 1-6-1
Shinjuku-ku
Tokyo 169-8050
JAPAN
toriyama@mn.waseda.ac.jp

In Japanese publicly listed stock companies, company management is the responsibility of a chief executive with executive rights and the chief operating officers charged with the management of internal operations. Directors elected by the annual general meeting (AGM) of shareholders comprise the board of directors, which appoints the chief executive director and the chief operating officers from amongst its own members and also supervises their management of the company. In Japanese stock companies it is, moreover, the case that the AGM elects auditors, independent of the board of directors, also for the purpose of supervising company management. It has been said of the current organisation of Japanese companies along these lines that the supervision of company management remains inadequate. Indeed, reform of company management structures is currently under debate at the Japanese Ministry of Justice.

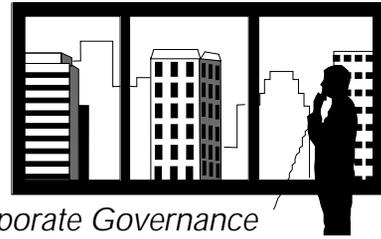
When discussing the supervisory bodies of company management, one can distinguish between internal and external supervisory bodies. This paper considers both sorts, hoping, thereby, to discern a possible direction for reform.

Internal Supervision of the Corporate Body

In the USA, for example, company management falls to a chief executive officer (CEO), a chief operating officer (COO), and various other officers. Directors elected by the AGM comprise the board of directors, which then appoints these officers, who are not required to be members of the board. In recent years, the number of officers also serving on the board of directors has appreciably declined and, moreover, in large companies the majority of boardroom members are generally external directors with no other connection to the company. Thus, a board of directors operates with a large degree of independence *vis-à-vis* the executive officers, and the supervisory function of the board over the officers' company management is accorded due weight.

In German companies, company management is carried out by a *Vorstand* (director). The AGM elects the members of the supervisory committee (*Aufsichtsrat*), which is empowered to appoint and dismiss the *Vorstand*. Committee members are prohibited from also serving as *Vorstand*.

A prerequisite for this kind of supervision of management to function effectively is to secure the independence of the supervisory body (the board or *Aufsichtsrat*) *vis-à-vis* the executive officers or *Vorstand*. Further, it is by investing this body with the authority to appoint and dismiss managers that the supervision of management can function to practical effect. Indeed, therefore, supervision of the management organisation by an internal body is carried out with the proviso that company management is adequately



reflected in the company's profits (supervision based on performance - *datôsei kansa*). In Japan, as in the USA and Germany, the board of directors is empowered to appoint and dismiss the management. Moreover, supervision of management by the board is generally interpreted as 'supervision based on performance'.

The Japanese system, however, differs in that the executive officers of Japanese stock companies are required to be members of the directorate and thus members of the supervisory body. What is more, most board members who are not appointed to the executive positions (the so-called lower-level directors) are company employees involved in the company's management operations under the direction of the appointed management (as so-called executive aides). External directors are extremely rare in Japanese companies. In short, therefore, most of those with positions on the supervisory body are, also, themselves engaged in the activities that they are ostensibly supervising. One cannot but conclude, then, that most Japanese companies lack even the foundation for effective management supervision.

External Supervision of the Corporate Body

France's Company Law reforms of 1966 introduced a new system of stock company organisation under the aegis of a *directoire* (executive board) and a *conseil de surveillance* (supervisory board); however, the number of companies that have actually adopted this system remains remarkably low even to this day. In most French companies, the AGM elects directors (*administrateurs*) who comprise the board of directors (*conseil d'administration*). The management of the company is entrusted to the president of the board; the *President-Directeur general* (PDG). Thus in France, as in Japan, the supervisory role of the board of directors boils down, essentially, to self-supervision.

Nevertheless, the French Court of Appeal (*Cour d'appel*) has compiled a register in each of its jurisdictional districts of those with the recognised qualifications to be appointed as auditors (*commissaire aux comptes*). The company's auditing commission is appointed by the AGM from amongst those registered. This commission is not solely concerned with financial audits, but is also charged with ensuring the legality of the company's various operations.

Due to the fact that the commission is, by definition, an external supervisory body, it is not empowered to appoint and dismiss company management. In order for supervision by this external body to function effectively, a fixed expert capability is required of the body in order that it can ensure it acquits its mandate effectively. Further, there is no need for such an external body to



Corporate Governance and Japanese Company Law *continued*

act as an advisory body, for it the body's independence that enables it to supervise effectively. The supervisory body, moreover, is not concerned with company profit and effective management; rather, it audits the legality of company management and the adherence of the managers to their prescribed obligations (supervision based on legality - *tekihōsei kansa*).

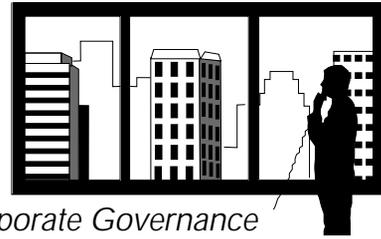
In Japan, when the reforms of 1950 accorded the board of directors legal status as an entity within stock companies, the power of audit was limited to financial affairs. However, the reforms of 1974 extended these powers to cover the supervision of all matters pertaining to company management, in order to reinforce the supervision of management processes. Even so, this did not include the authority to appoint or dismiss management personnel. On the other hand, however, auditing bodies were not charged with any particular specialist functions and, therefore, it remains unclear as to whether these bodies play a role that is essentially internal (as has seemed to be the case), or external, to the management structure.

In fact, the reforms of 1993, aiming to ameliorate supervision by the auditing body, made it such that for companies with capital of over 500 million yen the auditing body would also comprise a consultative body in the form of a supervisory board. Further, although many theories appreciate that the role of a supervisory body is to audit legal matters, conversely, there are also many who argue persuasively that it is by according auditing bodies status as internal management entities that supervision conforms to the concept of supervision based on performance.

A Prescription for Reform

As we have seen, an issue that requires resolution in the structure of contemporary Japanese companies is the clarification of the status of corporate management supervisory bodies. Accordingly, reform of stock company organisation should, perhaps, be investigated along the lines of conceptualising the supervisory body as either: an internal organ of company management with clearly defined status; or, as part of a system of supervision whereby it is defined as an body external to the management structure.

In the former instance, a question we should address is whether, as an internal organ, the supervisory body would be empowered to dismiss directors, or whether, it would be accorded this authority once integrated with the board of directors as a consultative body. For example, a report released by the Ministry of International Trade and Industry (MITI) on December 8, 2000, proposes, for the purpose of enabling the separation of company management and its supervisory functions, making it possible for managers to not belong to the board an audit committee on its internal board



of directors which is composed of a majority of external directors, the report of directors thus reinforcing the supervisory role of the board. At the same time, for companies which have already established an audit committee on its internal board of directors that is comprised of a majority of external directors, the report proposes making an exception in the application of the supervisory system (MITI, "Adjusting the Corporate Legal System for Corporate Management in the 21st Century" (*Nijû-isseiki no Kigyô Keiei no tame no Kaisha Hôsei no Setsubi*), pp.6, 41; accessible at <http://www.meti.go.jp/report/whitepaper/index.html>).

In the case of the latter, where supervision is to be carried out externally, a system should be devised whereby only those with appropriate and recognised qualifications are entitled to sit as auditors. A report released by the Liberal Democratic Party on April 15, 1999 ("Outlining Proposed Reforms to Commercial and other Laws with respect to Corporate Governance", (*Kigyô Tôji ni kansuru Shôho nado no Kaisei-an Yôkô*), p.37), proposes that more than half the members of any supervisory body be appointed from outside the company concerned, and that the body's independence be ensured by requiring that candidates for the supervisory body nominated by the board of directors for election by the shareholders be approved by the supervisory board. However, as such study has shown, this proposal does not go far enough, as it does not require auditors to possess any specific or specialist qualifications so as to ensure efficient supervision by external supervisory bodies, and this is something that demands further research.

In Japan, since 1974, various fragmentary measures have been taken to strengthen the supervision processes of company management, in response to requests from the business world and also in response to the more recent series of corporate collapses which have become something of a social phenomenon. Consequently, the status of supervisory organs within the company structure remains ill-defined, and their effectiveness limited by a lack of integration in company organisation. We would hope to witness the realisation of legislation in Japan that does not bow to the demands of business interests, and which holds fast to the principle of integration.

□

ISS Contemporary Japan Group at the Institute of Social Science, University of Tokyo

The ISS Contemporary Japan Group serves as a forum for researchers on Japan to receive critical feedback on their work. Researchers visiting Tokyo are invited to contact one of the persons listed below if they would like to make a presentation. Meetings are open to everyone. Please contact Professor HIWATARI Nobuhiro (hiwatari@iss.u-tokyo.ac.jp), Professor ISHIDA Hiroshi (ishida@iss.u-tokyo.ac.jp), or MIURA Mari (miura@iss.u-tokyo.ac.jp) for more information.

A Civilised Nation: Japan and the Russo-Japanese War

Dr. Naoko SHIMAZU

*School of History, Classics and Archaeology, Birkbeck College,
University of London
September 12, 2000*

Dr. SHIMAZU examined the concept of 'the civilised nation' (*bunmei kokka*) and civilisation discourse (*bunmeiron*) in relation to racial discourse in Japan during the Russo-Japanese War (1904-5). Based on her analysis of contemporary journals and newspapers, she argued that although the Japanese public was well aware of the racial nature of the war, prevailing opinion preferred to situate the war in domestic discourse in terms of the category of 'civilisation', revealing a desire to achieve recognition for Japan as 'a civilised nation' according to Western standards. Dr. SHIMAZU concluded by contending that her analysis indicates that the Japanese of that time believed that it was possible for them to be fully integrated into the Western world solely on the basis of attaining an adequate level of 'civilisation'.



Unconventional Moralities, Tolerance and Containment in Urban Japan

Tom GILL

*Professor, Institute of Social Science, University of Tokyo
October 4, 2000*

Japan is sometimes portrayed as a 'control society' (*kanri shakai*), in which the sphere of individual freedom is severely circumscribed. Professor GILL argued, however, that the pattern of freedom and constraint in Japan is actually very complex and that certain forms of behaviour (for example, drunkenness) are tolerated in Japan to a greater degree than in many other countries. He discussed this theme in relation to two groups of people - day labourers and yakuza - suggesting that the apposite term is, perhaps, not so much "control" as "containment" through the definition of geographical or temporal zones of tolerance within which potentially anti-social behaviour is contained.

Japan's Financial System in the 1990s

i) From Big Bang to Biggu Ban: Globalisation and the Convergence of Financial Systems in Britain and Japan

Henry LAURENCE

Professor, Bowdoin College

ii) Assessing the Reorganisation of Japan's Financial Authorities: the Enduring Salience of Politics

Dr. Jennifer AMYX

Australian National University



Discussant: KOJO Yoshiko

Professor, University of Tokyo

December 8, 2000

In the first of the two presentations, Professor LAURENCE argued against two prevailing views of financial deregulation in Japan; namely, the view that very little has changed at all over the last decade due to a lack of political will and the view that what change has occurred has not represented any fundamental shift in the political dynamics of finance in Japan. He detailed the processes of marketisation and regulation of the financial sector and, by examining the actions and



motives of regulators, producer groups and consumers against the backdrop of globalisation and domestic change, contended that since the incentives for reform have improved, so too will the effectiveness of changes made. As shown by the case of the British Stock Exchange, the benefits of reform take time to flower, and Professor LAURENCE concluded that the direction of change in Japan is clear, despite the apparent sluggishness of the country's progress theretofore.

Jennifer AMYX examined in some detail the process and nature of institutional change induced by the financial crisis in

Japan, paying particular attention to bureaucratic and legal reform since 1998. She noted the significance of the passage of the Financial Revitalisation Law in October 1998, maintaining that changes in the bureaucracy prior to that had merely consisted of 'switching the signboards' (*kanban nurikae*), and argued that the creation of the Financial Services Agency in July of last year should prove to be the most substantive and consequential reform to date. Dr. AMYX's presentation supported the hypothesis of Japan's convergence to a global standard, and recognised that it has been inopportune timing which has, in many instances, delayed the process of change and compounded the woes of an already struggling financial sector.

Professor KOJO, noting that both presentations, in fact, argued 'beyond convergence', raised several issues, such as the extent of government, as opposed to bureaucratic, influence in deregulation, and the extent to which support for deregulation has really taken root among Japanese 'consumers', and asked how we could be confident that the changes predicted by both speakers would actually be realised. A lively discussion ensued.

Politics over Co-operative Economic Unionism: an Overlooked Aspect of the Union Movement in Post-war Japan

SUZUKI Akira

*Associate Professor, Ohara Institute for Social Research,
Hosei University
November 1, 2000*

Co-operative economic unionism has widely been seen as one of the major characteristics of private-sector labour unions in post-war Japan. These unions have co-operated with management since the early 1960s in raising the productivity and competitiveness of firms in order that workers would receive a fair share of subsequent economic benefits. Professor SUZUKI critically examined the theories explaining co-operative union behaviour, and argued that these theories have largely overlooked the issue of how unions aggregate and represent the interests of union members. He also analysed internal union politics by examining the case of steelworkers' unions, focusing, in particular, on the activities of a minority of union members who opposed the co-operative union leadership, and discussed how these activities affected the legitimacy of the union leadership.



Research Report

Public Television under Threat? How are NHK, the BBC and PBS responding to the Global Media Revolution?

Henry LAURENCE

Public Broadcasting Policy in Comparative Perspective

Thinkers since Aristotle have argued that a well-informed citizenry is an essential prerequisite for healthy democracy. More recently, it has become universally accepted wisdom that information is also essential to economic success (as demonstrated by Prime Minister's MORI Yoshiro's fixation with the information and communications technology revolution). Like it or not (and many academics do not) most people in industrialized democracies still get most of their information from television, despite all the hype about the Internet. Accordingly, one might expect that democratic governments will take whatever measures they can to ensure that their citizens have access to the best and most reliable information possible from the television.

However, television policy varies considerably across countries. At one extreme, Japan and Britain regard public television as a public good - something that benefits all, but which will not be adequately provided by a free market, and which governments must therefore provide. Japan's Nihon Hôshô Kyôkai (NHK) and the British Broadcasting Corporation (BBC) are both large, well-funded and highly-respected public broadcasters. Their particular strength is in providing extensive news coverage, as well as high-quality documentaries, dramas, and educational and minority-interest programming - in other words, programs which are not commercially appealing and which governments in both countries have felt obliged to provide. Yet both broadcasters also provide more general entertainment programming such as dramas, soap operas, comedies and cooking shows, (the BBC more than NHK), raising questions about what exactly they should be providing. Institutionally, they are strikingly similar. Both officially enjoy editorial independence from both government and corporate sponsors, but both have regulations requiring that they provide high quality (as well as popular) programming in the public interest. Both have been very successful in terms of viewer satisfaction and overall reputation. For example, polls consistently rank NHK as the most-trusted institution in Japan. Both are paid for by viewer fees which are compulsory for anyone who owns a television set capable of receiving their signal, regardless of whether they actually watch or not, and both are therefore unrestrained by commercial considerations. (Compliance in payment of the viewer fees reveals a small but interesting sociological difference - the BBC punishes evaders with fines and even imprisonment, but estimates of the overall compliance rate are usually far lower than in Japan, which has no penalties for non-payment). Both exist as major players alongside commercial broadcasters - NHK enjoys around a 20% audience share, and the BBC around 40%.



Henry LAURENCE is an Assistant Professor of Government and Asian Studies at Bowdoin College.

Bowdoin College
38 College St.
Brunswick, ME 04011
USA
laurence@bowdoin.edu



Public Television under Threat? *continued*

A separate question, beyond the scope of this paper, is: what explains the different political orientations of these organizations? NHK, while officially neutral, is a deeply conservative institution even by Japanese media standards, while the BBC is a much more outspoken critic of the British establishment in general, and the Conservative Party in particular, than even its commercial rivals (Readers interested in these questions should refer to Ellis KRAUSS's wonderful "Broadcasting Politics in Japan").

At the other extreme of the public television scale, the American Public Broadcasting Service (PBS) struggles for existence in the face of political attitudes ranging from indifference to outright hostility. While the annual budget for NHK is around \$6 billion and that of the BBC is around \$3 billion, PBS receives less than one quarter of a billion dollars. To put that another way, the Japanese public spend approximately \$32 per citizen per year for NHK, while the British pay \$39. PBS receives about \$1, and commands an audience share of 2-3%.

In short, public television policy provides a good illustration of different national styles of democratic capitalism - bureaucratic corporatism in Britain and Japan, and laissez-faire commercialism in the US. Yet recently the rationale for public television has been undermined in three ways at once: technologically, economically, and ideologically.

The Threats to Public Television

Over the past two decades, the technological dimensions of television have changed beyond recognition. Key developments have included advances in satellite communications; fiber-optic technology and digital compression; and the rapid growth of the Internet. These advances have facilitated a vast multiplication of alternative sources of news and entertainment. The expansion of alternative programming undermines the public rationale for, and therefore the political legitimacy of, public television in two closely related ways. First, it allows commercial channels to serve minority interests and niche markets in the ways that public television was originally designed to do. Business news channels are one example. Second, the political legitimacy of public television is eroded if and when it loses viewers to alternative sources: over the past decade both NHK and the BBC have seen their audience shares decline, the latter from over 50% to around 40%. In Japan, NHK is also losing viewers, especially among the younger generation. In 1996, around 90% of elderly people watched NHK programs regularly at least once a week, but only 50% of people in their 20s did so. (Privately, some NHK insiders say that the lack of support among younger viewers is far worse than the official figures, with up to 70% of 20-30 year olds neither watching NHK nor wanting to pay for it). In any case, public

broadcasters should find it harder to justify their publicly-funded status in the new environment.

The second threat to public television has come from a combination of rapidly rising costs and stagnant revenues. First, the costs of program production have been rising rapidly as competition with both domestic and international commercial rivals has become fiercer. Rising costs are associated not just with expensive new technological developments such as digitalization, but also in the prices for “killer content”. One example is sports broadcasting rights, where global competition has forced prices up to crazy levels. In 1998 the Japanese broadcasting rights for Football’s World Cup were set by FIFA at ¥0.7 billion, but for 2002 they will be around ¥25 billion - a 35-fold increase in 4 years. Unfortunately, while costs rise, public broadcasters have seen revenues stagnate. From the 1950s until the 1980s, both NHK and the BBC saw license fee income rise as more and more households acquired television sets and then upgraded from black-and-white to color sets which commanded higher fees. Now, with almost 100% of households owning color sets, revenue increases can only come by raising fees above the level of inflation - something which in both countries requires parliamentary assent, and is politically very difficult to do. The switch from analogue to digital broadcasting, which both countries have committed to doing over the next decade or so, has only worsened the revenue problem. In both Britain and Japan there have been fierce political battles over who should pay for the transfer, since not all viewers will receive digital services, so a general increase in license fees is politically and legally difficult. Turning directly to the government for funds to make up the shortfall is becoming more difficult as there is growing pressure on government budgets – especially in Japan, where public finances have been deteriorating rapidly throughout the 1990s.

Finally, the very idea of national public television is increasingly anachronistic in our laissez-faire world where the dominant ideology is that the market knows best. The wave of privatization of railways, telecommunications and so on, that has taken place in both Britain and Japan in the past 20 years or so is in part a tribute to this ideological shift. The “public goods” rationale for programs such as “Eastenders” or “Beverly Hills 90210” (shown by NHK) is becoming harder to sustain, especially at a time when viewers have many more choices of commercial programming, many of which they also have to pay for.

In the face of these challenges, some countries such as France have simply turned their public television stations over to the commercial sector. How

Public Television under Threat? *continued*

have the BBC, NHK and PBS coped? Initial indications are, in very different ways.

National Responses to the Global Media Revolution

Privatization of the BBC was first aired, unsurprisingly, by Margaret THATCHER's government in the mid-1980s. She portrayed the organization as an inefficient nationalized bureaucracy, with an unjustifiable left-wing bias. Yet she was unable to make radical changes. The Peacock Report of 1986 kept the licence fee structure, but allowed separate commercial enterprises for the first time. BBC World was one result, founded in 1994 to sell BBC programming abroad and to set up a commercial international television news service. The first steps towards replacing the compulsory license-fee with a voluntary subscription system based on a scrambled pay-channel were set up at the same time. In addition, the BBC was forced to set up internal markets for its own producers, forcing them to compete with each other for resources and therefore to cut costs. Yet the issue of falling revenues continues to dog the organization and, in August 1999, a Labour Government study recommended further commercialization and complete privatization of certain departments.

In Japan the commitment to public television is still strong, and NHK is still the wealthiest public broadcaster in the world. Although its audience share is dropping, there are no signs of any fundamental reform along market-oriented lines. In 1985 the organization was permitted to establish for-profit subsidiaries, but the main purpose seems to have been to extend NHK's reach into the Japanese media business rather than to make profits *per se*. Commercial ventures still make up only 1 or 2 % of revenues.

In the US, PBS came under increased scrutiny and attack with the electoral victory of the Republican Party in the Congressional Elections of 1994. Republicans variously charge that PBS is inefficient, immoral, too liberal, or too elitist, with former House Speaker Newt GINGRICH calling it "a sandbox for the rich". In 1996, the Public Broadcasting Self-Sufficiency Act recommended the elimination of federal funding for PBS. The bill died in committee, but the Corporation for Public Broadcasting's budget was cut to \$250 million in 1998, demonstrating that recent American broadcasting policy has been to rely on the market mechanism more than ever.

In short, there is a marked policy divergence between the US on the one hand and Britain and Japan on the other. Within the past decade, immense pressures have grown to commercialize public service television. In a host of other issue areas such as finance, transport and telecommunications, both countries succumbed to the pressure to liberalize and privatize. Yet on the

issue of public TV, neither the British nor the Japanese have shown any inclination to move closer to the American laissez-faire model. Indeed, one is struck by the number of occasions when senior policymakers in both countries praise the ideal of public service and explicitly cite the US as the model for how NOT to conduct broadcasting policy. This is all the more surprising considering the hyperbole surrounding the “global media revolution” and the very real dominance of Hollywood in the international movie business.

However, there is a second, more intriguing, finding. The BBC and NHK have been taking increasingly divergent paths to preserve their status. The British have begun more actively to consider ways to commercialize the BBC in ways which would make it more economically efficient and allow it to compete with far better funded commercial rivals, but without sacrificing the public service remit. NHK has, so far, largely resisted pressures to commercialize, at least at the core of the organization, although it does have several commercial satellites.

Adoption of the Internet gives us an illustrative policy between the two broadcasters. The BBC quickly saw the Internet as a new opportunity both to make money and win back lost relevance. They aggressively expanded onto the ‘net, and their news website <http://news.bbc.co.uk/> is now the most popular site in Europe. In doing so, the BBC has come into nasty new political and legal conflicts with commercial broadcasters and Internet service providers, who claim the organization is unfairly using public funds. Interestingly, Tony BLAIR’s Labour Government has, so far, sided with the BBC.

By contrast, NHK’s news site <http://www.nhk.or.jp/daily/line/line.html> was launched only in December 2000. How counterintuitive is it that Britain is way ahead of Japan on an issue that concerns both information and high technology? Part of the reluctance of NHK to embrace the Internet is legal. There are only 20 million internet subscribers in Japan and Article 39 of the Broadcast Law forbids NHK from spending viewer fees collected universally to provide non-universal services. Part is also that, with twice the viewing population and hence twice the revenue, NHK is not as desperate for new sources of funds and legitimacy as the BBC. But part of the problem may also be managerial. NHK management is notoriously conservative, reflecting much that is bad about the seniority system and lifetime employment. One reaches the top of a Japanese bureaucracy by being old, traditional and cautious, and these aren’t exactly the ideal management demographics for success in the “New Economy”. One is reminded of the recent revelation



Public Television under Threat? *continued*

that of the Cabinet Ministers entrusted by Prime Minister MORI to turn “e-Japan” into the world’s leading IT nation within five years, barely half could use a word processor, much less master such technologically challenging skills as sending and receiving e-mail.

So it could be that the difference between the BBC and NHK in Internet use is representative of broader national differences in responses to globalization. The parallels to financial liberalization are quite close, and not just because many commentators are beginning to talk of the “*masukomi biggu ban*”, echoing the phrase used for capital market deregulation. Japan is reacting slowly and reluctantly to the demands of the new economy, and trying as hard as possible simply to preserve the status quo. Britain is more actively attempting to carve a “Third Way” between American-style laissez-faire capitalism and Japanese-style bureaucratic corporatism. At the moment, it seems that the BBC’s path is resulting in increased national and international status, while NHK is gradually losing relevance both nationally and internationally. The Japanese broadcaster has been described as like an elephant - huge, but hard to turn once embarked on a course of action. Whether the elephant can be turned or not remains to be seen. □

For Further Reading:

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Research Report

Yet Another Tale of Minamata: On the Surprising Degree of Continuity in Modes of Government Decision-Making in Japan

Anja OSIANDER

Stories Over Stories

The story of Minamata - the world's most devastating case of mercury poisoning - has been told many times. Most widely known are the famous narratives by ISHIMURE Michiko, but there are many more accounts of what happened and why. Countless are the articles in Japanese newspapers and magazines, manifold the testimonies and autobiographical accounts by victims, activists, politicians and bureaucrats, scientists and doctors, not to mention the piles of court documents and *mini-komi* publications. Much visual material has also been produced, such as documentary movies and collections of photographs.

The story of Minamata is still being told. In 1996, a commemorative exhibition was organized in central Tokyo by supporters of the victims. The Kumamoto Nichinichi Shimbun is hosting a special website dedicated to the case, complete with links and updates (www.kumanichi.co.jp/minamata). The city of Minamata has been maintaining a museum and archive on the poisoning since 1993. The richest and most productive site for stories on Minamata, however, is to be found at the Soshisha Foundation Center in Minamata, set up by victims and activists in their support in 1974. It, too, houses a museum as well as an archive which offers special collections of newspaper clippings and of *mini-komi* publications. The Soshisha Foundation continues to produce documentary materials on the poisoning. It also serves as the nerve-center for an extensive network of people whose lives have been affected by the events in Minamata.

One might argue that the ongoing discourse over Minamata is of little relevance to the social sciences. One might also argue that the Minamata case is over and has been over for some twenty years, ever since the Kumamoto court decided in favor of the victims; the government introduced the law on compensation for environmental diseases; and, more importantly, MIKI Takeo, the then Director of the Environmental Agency, brokered a new treaty for compensation between activists and the company whose plant had been the source of the poisoning. All this happened back in 1973. One might also argue that the *problem* of Minamata - the conflict over industrial development - did haunt Japan in the sixties and seventies, but that it is no longer an acute issue in Japanese society today. From such a point of view, to still talk about Minamata looks like a ritual; repetitious and lacking new content.

In fact, the thrust of social science research on Minamata does suggest a view of the case as belonging to the - albeit recent - past rather than the present in Japanese society. Much work on Minamata was done during the 1970's. It



Anja OSIANDER is a Ph.D. candidate at the Institute of Political Science, University of Cologne, Germany, and a lecturer at the Technical University of Dresden.

Koenigsbruecker Str. 68
01099 Dresden
GERMANY
osiander@canaletto.net

Yet Another Tale of Minamata *continued*

Notes

¹ A slightly different analysis of the Minamata citizens' movement is offered in OSIANDER (1998). Using the concept of collective meanings as developed by Norbert ELIAS, it seeks to explain why the movement did not take off during the height of the actual poisoning but rather, and then most successfully, ten years later.

highlighted the events in Southern Kyushu as an alarming example of the systematic deprivation of lives and of livelihood, brought about by reckless industrial development. The ramifications for the local community were studied in an exemplary multi-disciplinary research project coordinated by IROKAWA Daikichi (1983). The field work was carried out in the years 1976 through 1980. Irokawa also initiated an oral history movement about the events in Minamata. The memories of key participants in the struggle of the victims, recorded by him and published as research notes in the *Tokyo Keizai Daigaku Kaishi*, remain a first-rate source. The study of the political decision-making on the Minamata case was pioneered by FUNABA and FUKAI (both 1977). In an attempt to compare the attitudes of local governments towards pollution, they produced detailed analyses of the reactions by the city government in Minamata and the prefectural government in Kumamoto during the early years of the conflict. IJIMA (1968) included a case study on Minamata in her Ph.D. thesis which pioneered the study of the role of citizens' movements in the conflicts over environmental destruction in Japan. After the 1970's, however, interest in the social sciences on Minamata faded away with the diminishing acuteness of the problem as it had been framed in the research thus far.

Only recently has the research been given a new impetus by the publication of a monograph by Timothy GEORGE (2001). George connects the issue of deprivation through pollution with the fight for civil rights. Through their demand for compensation, the victims of the poisoning in Minamata fought to be recognized as citizens whose rights were violated by the company management and by the state authorities. George analyzes how they, and the citizens who supported their plight, in fact sought to redefine the concept of citizenship, i.e. the relationship between individuals and the state, in Japan from the 1950s into the 1970s.¹

The desire of the victims to be recognized as citizens in their own and full right was reconciled by the 1973 events. Or so it seemed at the time. However, as if in an never-ending story, the topic of the deprivation of civil rights soon raised its ugly head once more. The government did not live up to its promises of 1973. Compensation was delayed for years, or denied, to most of the victims. This situation continued for the next two decades. It is the reason why, from the point of view of many victims and of their supporters, the case of Minamata is anything but settled even today. According to their experience, the concept of citizenship has been and remains acutely contentious in Japanese society. That is why they continue to tell the story of Minamata.

The research for my Ph.D. thesis starts out against this background. It seeks to provide an answer to the question of why the struggle of the Minamata victims for recognition has turned into a story which has trouble coming to an end.

Government Decisions on Minamata 1952-1995

The research focuses on the role of the government bureaucracy in the Minamata case. It traces the paths of governmental decision-making concerning the treatment of the effluents from the Minamata factory, the medical care for those who had fallen ill, and the conflicts over compensation. My work builds on the work done by Funaba and Fukai and extends it along two dimensions. Firstly, all levels of government are included, from the local office for public health in Minamata to the prime minister's office in Tokyo. Secondly, the story of the considerations, negotiations, and decisions that took place at government agencies concerning Minamata is taken beyond the 1950s and into the 1990s.

Although the "strange disease" in Minamata was not officially recognized until 1956, the first government action concerning Minamata reaches back some four years earlier. In 1952, responding to a complaint filed by the local fishing association over the pollution of Minamata bay, an officer of the prefectural office for the fishing industry inspected the bay. He confirmed an "undeniable impact" of factory effluents on the fishing grounds, and recommended further investigations. This move is taken to be the starting point for the research.

In 1995, Prime Minister MURAYAMA issued a "private excuse" at a press conference towards the victims of the poisoning. It provided them with semi-official recognition of the fact that the government had been neglecting their rights for decades. Moreover, the coalition government, overriding resistance from within the Environmental Agency, brokered a new compromise with all but one of the victims' groups over the issue of compensation. Most of the victims subsequently dropped their charges in court against the government. Many of them did so simply because they felt too old to go on. My research also takes the 1995 deal as the closing point - with much the same reasoning, i.e. rather for the sake of practicality, less out of the belief that the matter has really been settled.

The account relies as much as possible on original documents that have been produced at the agencies involved in the case. The documents were obtained through a number of sources. Many were supplied by government officials at the local, prefectural, and national levels who agreed to be interviewed



Yet Another Tale of Minamata *continued*

Notes

² SCHUMPETER (1911: 1-3). His argument is classical in its clarity.

during three field trips to Minamata, Kumamoto, and Tokyo in 1993 and 1994. The texts include official material as well as classified notes. Other documents have been reproduced in the *mini-komi* publications by victims' groups or else as part of the judicial proceedings concerning the poisoning, especially in some of the commentaries drafted by judges to support their rulings. The single most important secondary source has been a superbly detailed chronology of the events up until 1976, which is part of a six-volume collection of medical issues concerning the Minamata poisoning (ARIMA, 1979). Whenever available and plausible, newspaper reports and published autobiographical accounts by some of the bureaucrats and politicians who took part in the decision-making are also used.

The Framework: Incentive Theory Extended

Description and analysis cannot be neatly separated. When trying to put together myriad pieces of evidence into a coherent story, a certain understanding of what seems plausible and what does not is constantly referred to, more or less consciously. In assessing the plausibility of different versions of the events, I kept looking for *some kind of rationality* in the motives of those who had brought these events about. The notion of "some kind of rationality" thus serves as the basic point of reference for giving an answer to the question of *what happened*. It also serves as the basic point of reference when analyzing the *why*-question.

When looking around for theoretical discussions on rational action in the social sciences, I found the field of economics to be most fruitful. Perhaps it is so because early on in its history as an academic field in its own right, economics was defined as taking an explicitly reductionist stance *vis-à-vis* reality. Economists do not seek to explain real life situations as a whole. Rather, they select those deeds and facts which are found to have some logical link to something which Joseph SCHUMPETER has called the "economic motive" in human action. They then apply their analytical tools to this truncated layer of reality. As a result, the history of economics is rather void of discussions on how reality should be conceived, and very rich in arguments on the logical coherence of models of economic (read, 'rational') action.²

The theoretical part of the thesis traces some of the main contributions that have been made to the study of rational action in economics. It starts out with the neoclassical mainstream model as established in the late 19th century. According to this model, rational action basically has two dimensions: pursuit of self-interest, and efficient use of scarce means. The model was criticized and extended by John VON NEUMANN and Oskar MORGENSTERN (1944), the inventors of game theory. They defined a third

dimension of rational action: strategic interdependence. A second, and even fiercer, wave of criticism of the neoclassical model can be seen in the recent rise of “experimental economics”, heralded in particular by Nobel Prize winner Reinhard SELTEN (2000). A close look at some of Selten’s arguments reveals two more dimensions of rational action: task-orientation (as a complement to the pursuit of self-interest), and deliberation which is used to assess whether or not a certain aim appears convincing in its claim to be meaningful.

It almost looks as if economists were growing tired of their well-established recipe for scientific progress. For the theoretical discussions within economics are taking a turn which threatens to rip apart the very basis of its success as an academic discipline. The more dimensions of rationality that are introduced, the harder it becomes to isolate a specific “economic” layer in social reality from all the others. Economics is about to descend back into a position from which it will have to face the chaos of real life again, just like all the other disciplines in social science.

This is good news. For the “descent” of economics is unleashing new attempts to synthesize different fields in the social sciences. One such attempt can be found in an analysis by ITO Hideshi (1994). Ito fuses a neoclassical model of rational action with the concept of “incentives”. The concept of incentives was developed in labor economics, but it is used widely now in institutional economics. It is a hybrid concept. It can be used in action theory as well as for structural analysis. Ito skillfully employs this hybrid concept to develop a new perspective on key features of personnel management in Japanese companies. He pinpoints the “deviance” of the Japanese practise from the neoclassical prediction and also manages to explain the stability of the structures which are brought about by the “deviant” patterns of action.

Ito’s use of incentive theory serves as a role model for the analysis expounded in the thesis. There is one important modification, though, with regard to the concept of rational action. In the thesis, rather than allowing only for the limited definition supplied by neoclassical economics, rational action is defined over the whole range of the five dimensions mentioned above. The result is an extended version of incentive theory.

The main difference from the reductionist version lies in the fact that in the extended version of incentive theory, for every dimension of rationality one can think of a different set of incentives. In other words, the range of potential incentives is multiplied. This empowers the analysis in two ways.



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Firstly, it is possible to assess the relative weight of different types of incentives in bringing about certain outcomes in political decision-making. Secondly, it is possible to analyze how the effects of different types of incentives interact. The incentives may contradict each other, or else they may reinforce each other. The net effect will influence the course of political decision-making. It can bring about stop-and-go, or erratic swings, or else stalemate.

In order to make use of all the five dimensions of rationality mentioned above, the methods used in the analysis also need to be extended. Formal logic alone no longer suffices. When discussing the rationality of task-orientation, and even more so when dealing with the rationality of deliberation, hermeneutical logic also needs to be applied. Unfortunately, the standard training of social scientists around the world today does include a great deal of formal logic, but hardly any hermeneutical logic. A revival of that art is warranted in order to enable analysis of social phenomena across all the dimensions of rational action mentioned above.

A final word of caution is in order. An extension of rational action theory, as described above, does promise to enrich the analysis of social phenomena greatly, especially when used along with the concept of incentives. However, it does not lend itself to the building of general theories. The analytical apparatus is simply too complex. It allows for a large variety of causal connections. Only by infusing it with detailed empirical content can it be rendered meaningful.

The Longevity of Meiji Modes of Governing

In the thesis, just like in Ito's work, the notion of incentives is applied to two different tasks. Firstly, it is used in order to make sense of certain events in the Minamata case. This is the action theory perspective. It asks questions like: Why did a particular official in this or that agency take a certain step? Why did others respond to it the way they did? What kind of incentives might have induced them to do so? In this manner, explanations are drafted for any single move by the participants in the course of the decision-making.

The thesis is a cumulative work. As more and more instances are analyzed, certain incentives start recurring; i.e., time and again they help to bring about the best match of the details. Gradually, *patterns* of incentives begin to emerge from the mess of the details. As they emerge, it becomes possible to look at the logical interactions between different incentives without referring to the details of the case any longer.

This is where the second task begins - the task of structural analysis. It asks questions like: What is the general shape of the way in which decisions on Minamata are being brought about? What kind of incentives, and what kind of interactions between incentives, are crucial in creating this shape?

The analysis is still under way, but some quite interesting conclusions are already emerging. For example, it appears that the notion of self-interest on behalf of the bureaucrats and politicians involved in the case hardly contributes anything to an explanation of the course of events. Nor, and this is even more surprising, does the notion of efficiency play a decisive role. The government in many instances chose a course which did little to bring the matter to an end, thus incurring more costs and continued preoccupation for the state. The most important category in trying to explain government action in the Minamata case turns out to be that of the rationality of deliberation. The officials involved in the Minamata case kept framing the problem in a way that was conspicuously different from how the victims of the poisoning perceived it. This, in brief, seems to be the answer to the question of why the story of Minamata has had difficulty resolving itself.

How can the framework of deliberation be sketched? The victims kept talking about their personal losses, and about the legitimacy of their claims. Meanwhile, most of the officials kept talking about the balancing of interests in the local community, and about problems of factual proof. They maintained a position of final arbiter, aloof of any "particularistic" considerations. They claimed the exclusive privilege to define what the Minamata case was all about, and they flatly rejected the victims' attempt to drag the government in as a party to the conflict, by raising the topic of public officials having neglected their duties.

The mode of deliberation on behalf of government officials with regard to the Minamata case provides a striking sensation of *deja vu*. For it hardly differs from historical descriptions of the position and the self-perception of the Imperial public service in Japan, especially as defined in its originating phase between 1885 and 1900.³ Could it be possible that the Meiji spirit of public service has survived, not only beyond the demise of Imperial Japan, but also beyond the generational change from pre-war-trained officials to those who personally never worked under the Imperial system?⁴

The history of government action on Minamata does indeed suggest such a conclusion. The framework of deliberation sketched above proved to be extraordinarily stable over the entire period from 1952 until 1995. Three times in the case history, government decisions in favor of the victims were



Notes

³ See especially BANNO (1992: chapters 1 and 6) and GLUCK (1985: chapter 3).

⁴ For data on this change see MURAKAMI (1994: 129-147).

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introduced which deviated from the reasoning sketched above. It happened in 1968, in 1973, and again in 1995. Interestingly, though, all these decisions came about as ad-hoc compromises, as technical solutions for an isolated instance. None of them openly challenged the mainstream approach towards the framing of the problem. All of them were introduced by cabinet members who personally had never had a career in public service. Only once, in 1971, was the framework overturned officially, in favor of the victims. The decision came from the founding director of the newly established Environmental Agency. OISHI Buichi was a member of the public service, but with an unusual background, having studied medicine before turning bureaucrat. His decision was quietly revoked by one of his successors six years later.

Why so much stability? It seems that different types of incentives have converged in maintaining this particular mode of decision-making. The Meiji prototype of public administration provides a role model which works as an incentive appealing to the rationality of deliberation. However, even officials who might personally prefer a different model of public administration face strong incentives to quietly go along, for the sake of self-interest and of strategic interdependence. Their careers in the public service depend upon internal assessment alone; and the autarky of the promotion scheme is guaranteed by law. What is rewarded is the ability to cooperate within the mainstream framework, not any sensitivity towards the point of view of "outsiders" to the public service. Moreover, even if an agency chose to move out of the mainstream framework, it would not get very far. The prefectural and local governments depended upon national agencies for the extra expenses which they incurred in dealing with the poisoning. Among national agencies, intra-governmental cooperation simply broke down more than once, due to the complications of jurisdictional boundaries, and *de facto* overlap could not be resolved.

The picture of influences from Meiji times thus grows larger. It is not only the idea of what the public service should do that has survived. The promotion scheme, the centralization of executive power in the national agencies, and also the peculiar system of jurisdictions were all introduced in the same period in the late 19th century, during the establishment of the first "modern" system of government in Japan. In other words, an entire scheme of incentives has been inherited, and is still intact. It works on the levels of deliberation and of strategic interdependence, for the sake of self-interest as well as with regard to some task-orientation.

The Meiji influence can be felt even when one moves beyond the realm of the government agencies as such. Throughout the history of the Minamata

case, outside checks against government action proved weak. Parliamentary inquiries, through ad hoc committees, did propel government action, but they did not influence the choice of policy. The courts consistently criticized the way in which the government treated the victims' compensation claims, but the rulings took years to mature, only to be appealed, or circumvented, by the government side. This lack of balance between the executive, the legislative, and the judicial branches in the Japanese political system is not coincidental. It was created deliberately by ITO Hirobumi and his collaborators. As the story of Minamata indicates, the repercussions can still be felt today.

The research on the Minamata case thus leads to a more general topic: How large is the overall influence of the Meiji political reforms on the Japanese polity today? In order to study this question, I would propose to again use the notion of incentives and to differentiate between different types of incentives. For I believe that in doing so, one will be able to detect a peculiar dynamic. It looks as if the overall mode of doing politics in Japan continues to resemble a pattern to which the Meiji reformers aspired. In my view, this is not simply a matter of conviction; i.e., it is not a matter of the rationality of deliberation which guides the participants in their actions. Many of today's participants in the Japanese political system might personally favor very different concepts, but fail to instill them into the political process. The reason, I think, can be found by looking at the incentives which the system offers to the participants with regard to strategic interdependence and to the pursuit of self-interest. These incentives were put in place in order to support the political rationale of the Meiji reformers. The reformers have long gone, and others have taken their place. The incentives, though, are still there. And they still work - despite the reforms of the Occupation period, and despite even the reforms of the 1990s.

□



Yet Another Tale of Minamata *continued*

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