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Corporate Governance and Firm Performance: An Implication from Japanese Listed Family Firms

Law Working Paper N° 784/2024

July 2024

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Abstract

The corporate governance of Japanese listed family firms is an outlier in two aspects. First, among listed family firms in the world, it is a unique phenomenon that many founding families keep sending top managers without owning substantial stock. Second, among listed firms in Japan, only family firms take the Anglo-American style top managers' incentive mechanism, particularly substantial manager ownership, although their shareholder monitoring is weak, like Japanese non-family firms. Heir managing firms, in which top managers are picked from small family pools, perform slightly better than non-family firms in Japan that suffered low accounting performance compared to Anglo-American firms. Although previous studies analyze both the relationship between family ownership and firm performance in listed family firms and the relationship between management ownership and firm performance in listed firms in general, little is known about the effect of management ownership in family firms, because it has been synonymous with family ownership. By using the unique sample of Japanese listed family firms, which includes both low family ownership firms and high family ownership firms, we distinguish the effect of management ownership and that of family ownership on family firm performance. Our regression analysis shows that while management ownership is effective in boosting performance even with less than 5% family ownership, family ownership is not found to boost performance unless it is more than 20%. Our study suggests that among the two factors of the Anglo-American corporate governance model: shareholder monitoring and management incentive, management incentive may make a difference in firm performance even without strong shareholder monitoring.

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Abstract

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Our study suggests that among the two factors of the Anglo-American corporate governance model: shareholder monitoring and management incentive, management incentive may make a difference in firm performance even without strong shareholder monitoring.

I Introduction

The unique characteristics of Japanese corporate governance have been articulated by many scholars since the 1980s, the heyday of Japanese economy. Recently, the unique characteristics of Japanese listed family firms are gathering attention. In the process of studying Japanese listed family firms statistically from 1991 to 2010, the so-called "lost two decades," we found that the corporate governance of Japanese listed family firms is an outlier among Japanese listed firms and their accounting performance is slightly better than that of Japanese listed non-family firms during the low economic growth era (Table 3, Table 4). It has interesting implications for comparative corporate governance in the world.

There is a huge difference between management ownership of heir managing firms even with low family ownership and that of non-family firms in Japan. Management ownership of heir managing firms with less than 20% family ownership is more than 10 times higher than that of non-family firms on average and around 40 times higher on median. Even management ownership of heir managing firms with less than 5% family ownership is around 6 times higher than that of non-family firms on average and more than 20 times higher on median (Table 1, Appendix Table 1). Although it sounds a matter of course that management ownership of heir managing firms is higher than that of non-family firms in the world, heir managers' substantial ownership is an outlier in Japanese corporate governance, not because it is enormously high, but because management ownership of Japanese non-family firms is very low.

The unique characteristic of Japanese listed family firms in the world listed family firms is the existence of many low family ownership firms that are

managed by heir CEOs. Outside of Japan, usually, low family ownership firms will soon abandon family management and become non-family firms. In Japan, there are many heir-managing firms even with negligible founding family ownership, in which the founding family is not within the top 10 shareholders (Figure 2).[1]

In previous studies on listed family firms in the world, management ownership has not been focused on, although the relationship between family ownership and firm performance has been statistically examined.

A sample of listed family firms including both low family ownership firms and high family ownership firms, which is hard to obtain outside of Japan, gives us an opportunity to study the effect of management ownership on firm performance being separated from the effect of family ownership. Although the effect of management ownership and that of family ownership will be inevitably contaminated in high family ownership firms, it is possible to measure the effect of management ownership almost independently in low family ownership firms.

By OLS regression analysis, positive effect of management ownership on accounting performance is recognized in low family ownership firms: less than 20%; less than 10%; and less than 5% ownership. Family ownership shows no positive effect in these samples (Table 6), but shows positive effect in the sample including more than 20% family ownership, although its effect is weaker than that of management ownership (Table 5). Even in listed non-family firms, of which management ownership is much lower than not only that of low family ownership firms but also that of US listed firms, positive effect of management ownership is recognized (Table 7).

Bennedsen, et al. (2021) pointed out the phenomenon that many Japanese founding families keep family top managers without substantial ownership

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[1] Although the stock ownership of the top 10 shareholders and that of more than 5% owned shareholders of listed firms must be disclosed in Japan, a shareholder's ownership is unknown, if she is neither within the top 10 shareholders nor has not more than 5%. Therefore, if the founding family is not within the top 10 shareholders, we will call its ownership "negligible," which is definitely less than 5 %, in most cases, less than 1%. *See* infra note 34.

as an enigma. Our study suggests that heir managers' equity incitive, carrier path, and tenure, which are exceptional in Japanese listed firms, contribute to the relatively good accounting performance among Japanese listed firms.

There are three implications from our study of Japanese listed family firms to corporate governance in general, particularly to corporate governance reforms in Asia.

First, management's weak equity incentive of listed non-family firms in Japan may be an important reason for their much lower ROA and ROE than those of Anglo-American firms.

Second, different incentive mechanisms of top managers may make a difference in firm performance even with weak shareholder oriented corporate governance.

And third, plural corporate governance mechanisms may co-exist in the same country and influence each other.

Chapter II will summarize the history of preceding studies, which are related to our research agenda, both on the listed family firm study and the debate on management ownership's effect on firm performance. Chapter III will describe the methodology and results of the empirical study of the effect of management ownership on accounting performance. Chapter IV will review the discussions on the unique characteristics of Japanese corporate governance in general and describe the post-bubble recession era, so-called the lost two decades, which our empirical study targets. Chapter V will compare the corporate governance of Japanese listed family firms and that of Japanese listed non-family firms and highlight heir managing firms' foreign natures as Japanese listed firms. Chapter VI will demonstrate how Japanese family firms have kept family management without owning substantial stock by introducing the four typical examples. Chapter VII is the conclusion with implications of this study and future research agenda.

II Previous Studies

"Family firms" denote corporate entities wherein the founding lineage wields

substantial influence through equity ownership and active participation in management. In the realm of finance research, family firms were initially construed as transitional phases within the corporate evolutionary continuum, garnering scant scholarly consideration. Traditionally, financial inquiries have predominantly concentrated on the agency problems between top managers and shareholders in entities characterized by widely dispersed stock ownership (Berle and Means, 1932; Jensen and Meckling, 1976).[2]

Nonetheless, La Porta, Lopez-de-Silane, and Shleifer (1999) systematically scrutinized the global landscape of listed corporations, unveiling the prevalence of entities wherein equities were not diffusely distributed but rather concentrated among a few stakeholders.[3] Concurrently, La Porta, Lopez-de-Silane, Shleifer, and Vishny (1998) investigated the impact of legal frameworks on stock distribution, revealing the existence of substantial shareholders in jurisdictions characterized by weak minority shareholder protections.[4] Through these inquiries, it became evident that enterprises with dispersed stocks, as posited by Berle and Means, represented merely one modality of corporate structure, prompting a demand for investigations into entities marked by concentrated stock ownership. Given that a considerable number of major shareholders globally were founding families, scholarly attention consequently gravitated towards family firms.

La Porta, Lopez-de-Silane, Shleifer, and Vishny (1998) identified the prevalence of corporations with concentrated ownership characterized by minority shareholder protection, instigating research endeavors predominantly beyond the confines of the United States.[5] Claessens, Djankov, and Lang (2000) empirically examined shareholder structures in East Asia, revealing that over two-thirds of corporations were effectively governed by a solitary shareholder, with a substantial proportion belonging to the category

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[2] *See* ADOLF BERLE & GARDINER MEANS, THE MODERN CORPORATION AND PRIVATE PROPERTY (1932); Michael Jensen & William Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure*, 3 J. FIN. ECON. 305 (1976).
[3] *See* Rafael La Porta, Florencio Lopez - de - Silanes & Andrei Shleifer, *Corporate Ownership around the World*, 54 J. FIN. 471 (1999).
[4] *See* Rafael La Porta, Florencio Lopez - de - Silanes, Andrei Shleifer & Robert W. Vishny, *Law and Finance*, 106 J. POL. ECON. 1113 (1998).
[5] *See id.*

of family firms.[6] Faccio and Lang (2002) extended their scrutiny to Europe, highlighting that 44% of corporations conformed to family firms.[7]

Several studies suggested inferior performance of enterprises characterized by substantial shareholders, such as family enterprises, indicative of the potential exploitation of minority shareholders by major stakeholders. La Porta, Lopez-de-Silane, Shleifer, and Vishny (2002) illustrated a proclivity for diminished corporate valuation with weak protection for minority shareholders.[8] Claessens, Djankov, Fan, and Lang (2002) demonstrated in the Asian context that corporations experiencing a dichotomy between cash flow rights and control rights held by major shareholders exhibited inferior corporate valuation.[9] Maury (2006) revealed the diminished performance of family firms in European countries characterized by weak protection for minority shareholders.[10] Bae, Kang, and Kim (2002) scrutinized M&A activities in Korea, exposing instances of minority shareholder exploitation by major stakeholders.[11]

Contrary to the prevailing perception that stock ownership is widely dispersed in the United States, and family enterprises are a rarity, Anderson and Reeb (2003) documented the significant influence of founding families over one-third of S&P 500 entities. Additionally, they demonstrated that family enterprises, even with strong protection for minority shareholders, were prevalent. Strikingly, they found that the performance of family enterprises surpassed that of non-family enterprises.[12] Following this

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[6] *See* Stijn Claessens, Simeon Djankov & Larry H.P. Lang, *The Separation of Ownership and Control in East Asian Corporations*, 58 J. FIN. ECON. 81 (2000).
[7] *See* Mara Faccio & Larry H.P. Lang, *The Ultimate Ownership of Western European Corporations*, 65 J. FIN. ECON. 365 (2002).
[8] *See* Rafael LaPorta, Florencio Lopez-de-Silanes, Andrei Shleifer & Robert W Vishny, *Investor Protection and Corporate Valuation*, 57 J. FIN. 1147 (2002).
[9] *See* Stijn Claessens, Simeon Djankov, Joseph P. H. Fan & Larry H. P. Lang, *Disentangling the Incentive and Entrenchment Effects of Large Shareholdings*, 57 J. FIN. 2741 (2002).
[10] *See* Benjamin Maury, *Family Ownership and Firm Performance: Empirical Evidence from Western European Corporations*, 12 J. CORP. FIN. 321 (2006).
[11] *See* Kee - Hong Bae, Jun - Koo Kang & Jin - Mo Kim, *Tunneling or Value Added? Evidence from Mergers by Korean Business Groups*, 57 J. FIN. 2695 (2002).
[12] *See* Ronald C. Anderson & David M. Reeb, *Founding Family Ownership and Performance: Evidence from the S&P 500*, 58 J. FIN. 1301 (2003).

research, scholarly pursuits into family enterprises persisted even in countries with strong protection for minority shareholders. Saito (2008) revealed that in Japan, alongside the United States and the United Kingdom, where protection for minority shareholders is strong, family firms constitute 36% of listed entities.[13]

Since the seminal work of Anderson and Reeb (2003),[14] a plethora of studies has scrutinized whether the performance of family enterprises surpasses that of non-family enterprises, emphasizing the criticality of generational succession. Villaong and Amit (2006) empirically investigated the performance of family enterprises in the United States, akin to Anderson and Reeb (2003). Their findings, discerning superior performance in enterprises managed by founders and inferior performance in those managed by descendants.[15] Perez-Gonzalez (2006) illuminated the deterioration of corporate performance after management succession.[16] Bennedsen, Nielsen, Perez-Gonzalez, and Wolfenzon (2007) examined hereditary management in Denmark, revealing a post-succession decline in corporate performance. Their methodological innovation, employing the gender of the CEO's firstborn as an instrumental variable, established a causal effect of hereditary succession on corporate performance.[17] Saito (2008) showed analogous trends in Japan.[18] Conversely, Sraer and Thesmar (2007) substantiated the superior performance of family enterprises in France compared to non-family enterprises.[19] Mehrotra, Morck, Shim, and Wiwattanakantang (2013) posited that the superior performance of Japanese family enterprises is attributable to the existence of the son-in-law system.[20]

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[13] *See* Takuji Saito, *Family Firms and Firm Performance: Evidence from Japan*, 22 J. JAPANESE & INT'L ECON 620 (2008).
[14] *See* Anderson & Reeb, *supra* note 12.
[15] *See* Belen Villalonga & Raphael Amit, *How Do Family Ownership, Control and Management Affect Firm Value?*, 80 J. FIN. ECON. 385 (2006).
[16] *See* Francisco Pérez-González, *Inherited Control and Firm Performance*, 96 AM. ECON. REV. 1559 (2006).
[17] *See* Morten Bennedsen, Kasper Meisner Nielsen, Francisco Perez-Gonzalez & Daniel Wolfenzon, *Inside the Family Firm: The Role of Families in Succession Decisions and Performance*, 122 Q. J. ECO. 647 (2007).
[18] *See* Saito, *supra* note 13.
[19] *See* David Sraer & David Thesmar, *Performance and Behavior of Family Firms: Evidence from the French Stock Market*, 5 J. EUR. ECON. ASS'N. 709 (2007).
[20] *See* Vikas Mehrotra, Randall Morck, Jungwook Shim & Yupana Wiwattanakantang, *Adoptive Expectations: Rising Sons in Japanese Family Firms*, 108 J. FIN. ECON. 840

Recent research has increasingly fixated on the evolutionary trajectory of family firms. Frank, Mayer, Volpin, and Wagner (2012) underscored that in countries marked by weak protection for minority shareholders, the equity ownership of founder families persists. In contrast, in countries with strong protection, founder family equity ownership diminishes, culminating in the extinction of family enterprises.[21] Bennedsen, Mehrotra, Shim, and Wiwattanakantang (2021) demonstrated that in Japan, even amidst a reduction in equity ownership by founder families, a significant number of enterprises continue to be under their management.[22]

Many previous studies analyze the relationship between management ownership and firm performance in listed firms in general. Morck, Shleifer and Vishny (1988) show that firm value is positively correlated with management ownership over some range of ownership and then, beyond that range, becomes negatively correlated.[23] McConnell and Servaes (1990) show similar evidence for a broader sample.[24] In contrast, Himmelberg, Hubbard, and Palia (1999) find no relation between management ownership and firm value after controlling for firm fixed effects. Fabisik, Fahlenbrach, Stulz and Taillard (2021) show that the empirical relation between a firm's Tobin's q and management ownership is systematically negative after controlling cumulative past performance and liquidity.[25] However, little is known about the management ownership in family firms, because it has been synonymous with family ownership.

(2013).

[21] *See* Julian Franks, Colin Mayer, Paolo Volpin & Hannes Wagner, *The Life Cycle of Family Ownership: International Evidence*, 25 REV. FIN. STUD. 1675 (2012).

[22] *See* Morten Bennedsen, Vikus Mehrota, Jungwook Shim & Yupana Wiwattanakatang, *Dynastic Control without Ownership: Evidence from Post-war Japan*, 142 J. FIN. ECON. 831 (2021).

[23] *See* Randall Morck, Andrei Shleifer & Robert Vishny, *Management Ownership and Market Valuation*, 20 J. FIN. ECON. 293 (1988).

[24] *See* John J. McConnell & Henri Servaes, *Additional Evidence on Equity Ownership and Corporate Value*, 27 J. FIN. ECON. 595 (1990).

[25] *See* Kornelia Fabisik, Ruediger Fahlenbrach, René M. Stulz & Jérôme P. Taillard, *Why are firms with more managerial ownership worth less?*, 140 J. FIN. ECON. 699 (2021).

III Empirical Study of the Effect of Management Ownership on Accounting Performance

Definitions of Family Firm

In this chapter, we confirm how the high level of management ownership in Japanese family firms affects corporate performance.

Our analysis covers the period from 1991 to 2010, and firms listed on the first section and the second section in Japanese stock exchanges. From these firms, we excluded financial firms and public utility firms. If data on the largest shareholders, managers, founding family members, or other financial data could not be obtained through the below process, we excluded these firms from our sample. As a result, our sample includes 41,769 firm-year observations.

Prior to our analysis, we defined family firms in this paper as shown in Figure 1. It is common for Anderson and Reeb (2003) and other previous studies to define family firms in terms of both management participation and shareholder ownership[26]. We therefore classified family firms into the following three categories: *founder firms*, *heir managing firms* and *non-heir managing firms*.

Founder firms are the firms in which the founder is still alive, and we excluded them from the analysis. Empirically, many previous studies have shown that firms managed by the founder have higher performance. However, this is not because they are family firms, but is a result of the founder's competence. Therefore, we aimed to measure the impact of managerial ownership more directly by excluding the impact of founders on the performance of family firms. Even after retiring from management, founders may remain indirectly involved in management by advising their successors or as major shareholders. In some cases, this is done through shareholder ownership using asset management companies, and the involvement of the founder is often not directly observable. In Japan, many such episodes are known, and the impact of this implicit control structure is

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[26] Bennedsen et al., *supra* note 22, provides detailed information on the definitions of family firms in previous studies.

expected to be particularly significant. Therefore, including the founder in the analysis when he or she is still alive, even if he or she has retired from management, may distort the results of the performance analysis of family-owned firms. From this perspective, this paper excludes from the analysis firms whose founders are still alive, even though they are family firms.

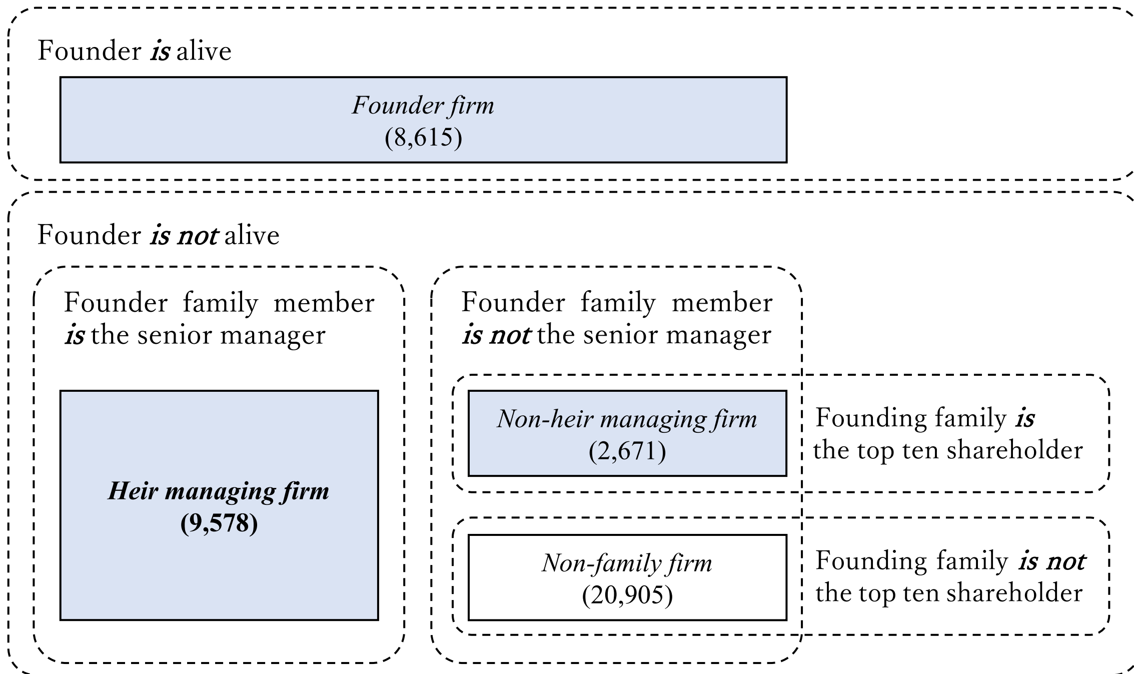

Figure1
Definitions of family firm

This figure shows the definitions of family firm. Founder firm is a firm where the founder is alive. Heir managing firm is a firm where the founder's heir is a president or chairman after the founder died. Non heir managing firm is a firm where the founding family is not a president or chairman, but the top ten shareholder of the firm after the founder died. In parentheses are the cumulative total number of firm-year observations. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded.

Not only the founder but also other founding family members can influence corporate management through direct participation in management or through controlling outside managers as major shareholders. Therefore, in this paper, we define heir managing firms as firms in which the family member assumes the position of president or chairman after the death of

the founder. Because our main research agenda is to examine the mechanism of the founding family management, we will mainly focus on the heir managing firm among these categories of listed family firms.

We defined non-heir managing firms as firms in which the founding family members have not been appointed president or chairman after the death of the founder but are major shareholders, that is, they are the top 10 largest shareholders.[27] This definition follows Bennedsen et al. (2021), who analyzed Japanese family firms.[28]

The cut-off line of stock ownership of listed family firm studies is different depending on the region. Studies on Europe and Asia mostly use 20%,[29] and studies on the US and Canada mostly use 5%,[30] reflecting the stock ownership structure in each region. The stock ownership structure of Japanese listed family firms is the most dispersed in the world and we need to use a more relaxed cut-off line than other regions.[31]

Finally, we defined firms that did not fall into any of the above categories as non-family firms.

To identify and classify family firms, we collect family ownership and management data for all the sample firm-years[32].

Family Firms in Japan

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[27] Because Japanese annual reports of listed firms show only the ten largest shareholders, the exact stock ownership of the founding firm is not disclosed if it is not within the ten largest shareholders. Therefore, if there is no shareholder related to the founding family within the ten largest shareholders, we assume family ownership is negligible. Furthermore, in our sample, the average ratio of the 10th largest shareholder is 1.639%.
[28] *See id.*
[29] *See* La Porta, et al, *supra* note 3.
[30] See Anderson & Reeb, *supra* note 12; Villalonga & Amidt, *supra* note 15.
[31] Listed firms with more than 20% family ownership are only 5% in Japan, while 26% in Continental Europe, 23% in North America, and 45% in East Asia. *See* La Porta, et al., *supra* note 3. Although dual-class stock, which is widely used by US listed family firms, is not available for Japanese listed family firms, cross-shareholding plays as its substitute.
[32] More detailed explanations on the construction of data on family firms is described in Appendix.

In our sample with 41,769 cumulative total number of firm-year observations, 8,615 observations were founder firm, 9,578 observations were heir managing firm, 2,671 observations were non-heir managing firm, and 20,905 observations were non-family firm. This indicates that about half of the firms in our sample are family firms that are influenced by the founder's family in some way. It also shows that when the family members become involved in the firm after the founder's death, they often participate directly in management rather than supervising outside management as major shareholders. This seems to be a peculiar trend for Japanese family firms that differs from the global trend pointed out by Burkart et al. (2003).[33] A unique characteristic of Japanese family firms is that family members often participate directly in management, even though their shareholding is relatively low. This differs significantly from the global tendency to supervise management as a major shareholder noted by Burkart et al. (2003). Figure 2 vividly illustrates this characteristic of Japanese family firms. Figure 2 shows the distribution of family ownership in heir managing firms, the main subject of this paper's analysis. The definition of family ownership is calculated by adding up the shareholding ratios of shareholders related to the founding family among the top 10 major shareholders. The vertical axis in Figure 2 shows the cumulative total number of firm-year observations.

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[33] *See* Mike Burkart, Fausto Panunzi & Andrei Shleifer, *Family firms*, 58 J. FIN. 2167 (2003).

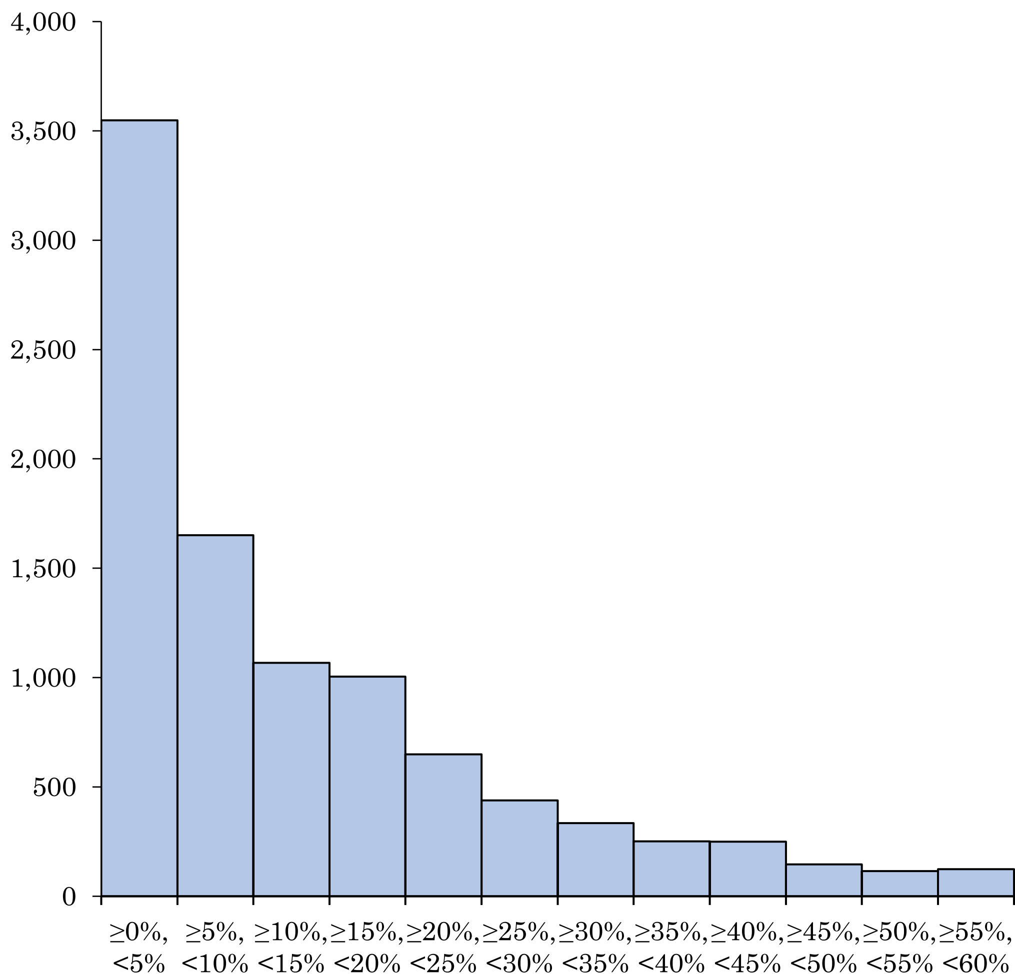

Figure 2
Distribution of family ownership of heir managing firm: 1991-2010
This figure shows the distribution of family ownership of heir managing firm. Heir managing firm is a firm where the founder's heir is a president or chairman after the founder died. The vertical axis in this figure shows the cumulative total number of firm-year observations, and the horizontal axis in this figure shows the distribution of family ownership. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded.

Figure 2 shows that the majority of heir managing firms (82.7%) have less than 20% family ownership, and a significant number (37.0%) have less than 5% family ownership. The less than 5% group includes companies with negligible or unknown family ownership, so the actual average ownership rate is likely to be less than 1%.[34] On average, family ownership of heir

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[34] *See supra* note 1. Because the average of the tenth largest shareholder in our

managing firms is 13.052%[35].

One of the puzzles concerning Japanese family-owned firms is why it is possible for the founding families to continue to send management executives from families that are not substantial shareholders[36].
On the other hand, Figure 2 also shows that the ownership ratios of founding families in listed family firms in Japan are diverse. As shown above, there are some non-substantive family-owned companies with a family ownership ratio of less than 10% or less than 5%. On the other hand, there are a small number of companies with family ownership of more than 20% or more than 50% that are substantially family-owned. Therefore, a comparison of the two can provide a deeper insight into the significance of family ownership ratios on corporate performance. This is a significant aspect of studying Japanese listed family firms.

Table 1 shows another important characteristic of heir managing firms in Japan, that is, management ownership is much higher than in non-family firms. Here, management ownership is the percentage of shares directly held by either the president or chairman, who owns more than another, to total shares.[37] The number of shares held by the president and chairman was collected from each year's annual securities report.

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sample is 1.639%, we can safely say negligible ownership is mostly less than 1%.

[35] The average of family ownership held by the founding families is to be 17.88% in S&P 500 sample by Anderson and Reeb, *supra* note 12, and 16% in Fortune 500 sample by Villalonga and Amit, *supra* note 15.

[36] Anderson and Reeb, supra note 12, reported that 30.43% of family firms are managed by descendants of the founder, and 55.03% of family firms employ outside CEOs. On the other hand, in our sample, 45.91% of family firms are managed by heirs of the founder even after the founder died, so we can consider that hereditary management is more permissible in Japan. *See* Bennedsen et al., *supra* note 22, for a more detailed discussion.

[37] Although in the United States, the top management is indicated as CEO, the top management is not clearly indicated in Japan as CEO, but either president or chairman is actual top management. So, we take larger stock ownership among president and chairman an indicator that shows who is the top management.

Table 1
Distribution of management ownership

	All firm	Founder firm	Heir managing firm	Non-heir managing firm	Non-family firm
Firm-year observations=	41,769	8,615	9,578	2,671	20,905
Mean	3.152%	9.622%	4.416%	0.660%	0.226%
Min	0%	0%	0%	0%	0%
10%ile	0.011%	0.069%	0.250%	0.010%	0.007%
25%ile	0.035%	0.916%	0.782%	0.040%	0.018%
Median	0.178%	5.784%	2.354%	0.131%	0.045%
75%ile	2.781%	14.914%	5.531%	0.451%	0.117%
90%ile	10.528%	27.004%	11.220%	1.655%	0.342%
Max	36.226%	36.226%	36.226%	19.258%	36.226%

This table shows the distribution of manager ownership for each type of family firm and non-family firm. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of founder firm, heir managing firm, non-heir managing firm, and non-family firm are explained in Figure 1.

On average, management ownership of heir managing firms is 4.416%, while management ownership of non-family firms is 0.226%.[38] In the subsample where family ownership is limited to less than 5%, the average shareholding ratio of heir managing firms is 1.260%[39], which is also higher than that of non-family firms.

This Table shows that management ownership of Japanese heir managing family firms (4.4% on average) is not higher than in other countries, but extremely higher than management ownership of non-family firms in Japan (0.22% on average) Hall and Liebman (1998) report that the management shareholding ratio in the United States is 2.15%.[40] Hence, the management ownership of non-family firms in Japan is extremely low. These data suggest that the equity incentives of senior managers of non-family firms are very weak in Japan but the equity incentive of Japanese heir managing family firms is much stronger.

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[38] The ratio of non-heir managing firms is 0.660%.

[39] *See* Appendix Table 1.

[40] *See* Hall & Liebman, *infra* note 63. Morck et al (1988) and McConell & Servaes (1990) report that the shareholding ratio of all board members listed firms in the United States is approximately 10%. *See* Morck, Shleifer & Vishny, *supra* note 23; McConell & Servaes, *supra* note 24.

Firm Performance and Variables

In this section, we examine how these differences in management ownership affect the performance of firms. In our analysis, we employed *ROA* (Ratio of operating income before tax and interests to book value of assets) as a variable representing the profitability of the firm's main business and *ROE* (Ratio of net income to book value of net assets) as a variable representing profitability relative to shareholders' equity. In the following sections, we will examine how the aforementioned dummy variables indicating each type of family firm and the management ownership and family ownership variables relate to performance variables[41].

For the control variables, we used *assets* (book value of assets), *leverage* (ratio of the sum of short-term debt and long-term debt to total assets), and *firm age* (years since first incorporation) as basic firm characteristics that affect performance. Assets and firm age are considered to represent firm size and business maturity, and thus are considered to be basic factors that affect performance, such as the abundance of firm growth opportunities. Leverage is considered to affect performance because it represents the efficiency of the capital structure and bankruptcy costs, as well as the degree of intervention in governance by the bank.

In addition, we use the figure from the beginning of each fiscal year for explanatory and control variables and use the figure from the end of each fiscal year for performance variables. The financial figures of the firms are adjusted by the consumer price index based on the year 2010. In order to mitigate the effect of outliers, each variable was winsorized at 1st and 99th percentile. In subsequent analyses, we will add industry and year dummy variables to these variables as necessary.

All performance variables and control variables are obtained from the "Corporate Financial Databank" compiled by the Development Bank of Japan.

Empirical Test

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[41] The definitions of the variables are summarized in Appendix Table 2.

Table 2 shows summary statistics of main variables in our analysis.

Table 2
Summary statistics

	Firm-year observations	Mean	Median	Standard deviation	Min	Max
Founder firm	41,769	0.206	0	0.405	0	1
Heir managing firm	41,769	0.229	0	0.420	0	1
Non-heir managing firm	41,769	0.064	0	0.245	0	1
Management ownership	41,769	0.032	0.002	0.066	0	0.362
Family ownership	41,769	0.084	0	0.143	0	0.592
ROA	41,769	0.041	0.036	0.044	-0.086	0.193
ROE	41,769	0.007	0.037	0.185	-1.238	0.296
Assets (billion yen)	41,769	198	50	493	4	3,560
Leverage	41,769	0.249	0.228	0.191	0	0.743
Firm age	41,769	54.212	54	19.192	8	105

This table shows the summary statistics. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of all variables are explained in Appendix Table 2.

Table 3 presents the mean of ROA and ROE for each type of family firm and non-family firm. The last column shows the results of the difference in means tests between heir managing firm and non-family firm. On average, the ROA of heir managing firm is 0.037 (3.73%) and the ROE of heir managing firm is 0.007 (0.75%). In contrast, the ROA of non-family firm is 0.037 (3.65%) and ROE of non-family firm is 0.002 (0.16%). The difference between heir managing firms and non-family firms was not statistically significant for ROA but was statistically significant for ROE. This suggests that heir managing firms are performing at least comparably to non-family firms.

Table 3
Summary statistics for family and nonfamily firms on firm performance

	Founder firm	Heir managing firm	Non-heir managing firm	Non-family firm	Heir managing firm vs. Non-family firm
Obs.=	8,615	9,578	2,671	20,905	
	Mean	Mean	Mean	Mean	t-value
ROA	0.059	0.037	0.038	0.037	1.623
ROE	0.024	0.007	-0.004	0.002	2.853***

This table shows the summary statistics for each type of family firm and non-family firm on firm performance. The last column shows the results of t-test to compare the

difference of means between heir managing firm and non-family firm. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of all variables are explained in Appendix Table 2.

Table 4 estimates this difference in performance using pooled OLS regressions. Here, ROA and ROE are used as dependent variables to analyze how the family dummy variables for founder firm, heir managing firm, and non-heir managing firm correlate with the performance measures. The benchmark for coefficients of the family dummy variables is non-family firm[42]. The coefficient of heir managing firm for ROA is 0.002 and is positively significant in column (1). This indicates that ROA is about 0.2% higher when the firm is heir managing firm than when it is a non-family firm[43]. The coefficient of heir managing firm for ROE is also positively significant in column (2), indicating that the ROE of heir managing firms is about 0.9% higher than non-family firms. These results indicate that in terms of accounting performance, heir managing firms are higher than non-family firms even after the death of the founder, and similarly to Table 3, heir managing firms show performance at least comparable to non-family firms.

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[42] For non-family firms, all the variables for founder firm, heir managing firm, and non-heir managing firm take the value of 0.

[43] Table 2 of Anderson and Reeb, supra note 12, which conducts a similar regression analysis, shows that ROA of heir managing firms is 1.9% higher than that of non-family firms. This result is similar to that of our study. On the other hand, Villalong and Amit, *supra* note 15, and Perez-Gonzales, *supra* note 16, point out that performance declines when management is transferred from the founder to the descendant. The finding that the coefficient on ROA is higher for founder firms in our analysis suggests that this is also the case in this paper.

Table 4
Firm performance and family firms: OLS regressions

Dependent variable=	ROA	ROE
	(1)	(2)
Founder firm	0.012***	0.015***
	[0.002]	[0.004]
Heir managing firm	0.002*	0.009***
	[0.001]	[0.003]
Non-heir managing firm	0.002	-0.002
	[0.002]	[0.006]
Log of assets	0.004***	0.012***
	[0.000]	[0.001]
Leverage	-0.062***	-0.220***
	[0.003]	[0.010]
Log of firm age	-0.018***	-0.017***
	[0.002]	[0.004]
Intercept	0.072***	-0.001
	[0.011]	[0.036]
Industry dummy	Yes	Yes
Year dummy	Yes	Yes
R^2	0.209	0.084
Sample Size	41,769	41,769

This table shows the results of pooled OLS regression. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of all variables are explained in Appendix Table 2. The dependent variables take the figures at the end of each fiscal year and other variables take the figures at the beginning of each fiscal year. Each variable was winsorized at 1st and 99th percentile. In parentheses are robust standard errors corrected for clustering at the firm level. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively.

The results that heir managing firms are able to achieve at least comparable performance to non-family firms may explain the puzzle in Japanese family firms as seen in Figure 2. In other words, it is possible that the problem that the selection of managers from a limited pool of personnel within the family may result in inferior managerial skills compared to non-family firms is covered by other advantages in Japan.

Based on this point, Table 5 presents the results of regression analysis when management ownership is added as an explanatory variable to the analysis in Table 4. This is the focus of this chapter's analysis. To exclude the effect of shareholdings held by members of the founding family other than the

manager, we also add family ownership (less family-management ownership) which is the value of family ownership minus management ownership.

Table 5
Effect of management ownership on family firms' performance: OLS regressions

Dependent variable=	ROA	ROE	ROA	ROE
	(1)	(2)	(3)	(4)
Management ownership	0.079***	0.177***	0.076***	0.173***
	[0.010]	[0.026]	[0.010]	[0.026]
Family ownership			0.018***	0.033**
(less family-manager ownership)			[0.006]	[0.013]
Founder firm	0.007***	0.002	0.005***	-0.002
	[0.002]	[0.004]	[0.002]	[0.005]
Heir managing firm	-0.001	0.002	-0.003**	-0.001
	[0.001]	[0.003]	[0.001]	[0.003]
Non-heir managing firm	0.002	-0.002	0.001	-0.005
	[0.002]	[0.006]	[0.002]	[0.006]
Intercept	0.054***	-0.043	0.050***	-0.050
	[0.012]	[0.036]	[0.012]	[0.037]
Control variables	Yes	Yes	Yes	Yes
Industry dummy	Yes	Yes	Yes	Yes
Year dummy	Yes	Yes	Yes	Yes
R^2	0.218	0.086	0.219	0.087
Sample Size	41,769	41,769	41,769	41,769
Wald-test of equality of two coefficients				
Null hypothesis:				
Management ownership = Family ownership (less family-manager ownership)				
			25.15***	24.63***

The upper panel of this table shows the results of pooled OLS regression. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of all variables are explained in Appendix Table 2. The dependent variables take the figures at the end of each period and other variables take the figures at the beginning of each period. Each variable was winsorized at 1st and 99th percentile. In parentheses are robust standard errors corrected for clustering at the firm level. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively. The lower panel of this table shows the results of Wald-test to test the null hypothesis that the coefficients of manager ownership and family ownership (less family-manager ownership) are equal. In parentheses are p-values. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively.

If the positive effect of heir managing firm on accounting performance in table

4 relies on high management ownership as seen in Table 1, we would expect the coefficient of management ownership on ROA and ROE to be positive and significant. On the other hand, after controlling for the effect of management ownership, we would expect the coefficient on the dummy variable for heir managing firms to be more negatively adjusted than in Table 3.

The results of regressions show that the coefficient of management ownership is positive and significant in columns (1)-(4). This indicates that the higher management ownership in heir managing firms led to the results for positive effect of heir managing firm in Table 3. As seen in Table 1, the average value of management ownership in heir managing firms is 4.416%. Thus, on average, we can estimate that it boosts ROA by 0.336% (0.04416 * 0.076) and ROE by 0.764% (0.04416 * 0.173). This explains most of the advantages of the coefficient of heir managing firm in Table 3.

The results that the coefficient of heir managing firm is not observed to be positive and significant in columns (1)-(4) is also consistent with the expectation that management ownership is a factor in boosting performance. In other words, the results in table 5 indicate that, excluding the effects of management ownership and family ownership (less family-management ownership), we could not observe other effects of heir managing firm itself on higher performance. This suggests that without a certain level of management ownership or family ownership, the performance of heir managing firms is not good.

In addition, the coefficient of management ownership is larger than that of family ownership (less family-management ownership) in columns (3)-(4), and the Wald-test results testing the difference between the two are also significant. Therefore, for the same 1% increase in shareholding, management ownership is more effective[44].

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[44] The average of family ownership of heir managing firms is 13.051%, which means that family ownership had the effect of increasing ROA by 0.235% (0.13051 * 0.018) and ROE by 0.431% (0.13051 * 0.033).

Table 6
Effect of management ownership and family ownership on low family ownership firms' performance: OLS regressions

Subsample=	Family ownership < 20%		Family ownership < 10%		Family ownership < 5%	
Dependent variable=	ROA	ROE	ROA	ROE	ROA	ROE
	(1)	(2)	(3)	(4)	(5)	(6)
Management ownership	0.102***	0.195***	0.118***	0.243*	0.167***	0.176
	[0.024]	[0.068]	[0.042]	[0.136]	[0.061]	[0.207]
Family ownership	0.005	-0.003	-0.014	0.037	0.017	0.109
(less family-manager ownership)	[0.015]	[0.045]	[0.035]	[0.092]	[0.077]	[0.267]
Founder firm	0.004**	-0.004	0.004*	-0.006	0.004	-0.009
	[0.002]	[0.006]	[0.002]	[0.007]	[0.003]	[0.009]
Heir managing firm	-0.003*	0.002	-0.003*	0.001	-0.004**	-0.001
	[0.001]	[0.004]	[0.002]	[0.005]	[0.002]	[0.005]
Non-heir managing firm	0.001	-0.002	0.002	0.001	0.001	-0.001
	[0.002]	[0.007]	[0.003]	[0.007]	[0.003]	[0.010]
Intercept	0.033***	-0.091**	0.037***	-0.084	0.038***	-0.087
	[0.011]	[0.042]	[0.012]	[0.052]	[0.012]	[0.054]
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummy	Yes	Yes	Yes	Yes	Yes	Yes
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.196	0.089	0.189	0.090	0.193	0.091
Sample Size	34,657	34,657	30,715	30,715	27,457	27,457
Wald-test of equality of two coefficients						
Null hypothesis:						
Management ownership = Family ownership (less family-manager ownership)						
	12.00***	6.42**	6.71***	1.99	2.65	0.05

The upper panel of this table shows the results of pooled OLS regression on subsamples with family ownership less than 5%, 10%, and 20%. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of all variables are explained in Appendix Table 2. The dependent variables take the figures at the end of each period and other variables take the figures at the beginning of each period. Each variable was winsorized at 1st and 99th percentile. In parentheses are robust standard errors corrected for clustering at the firm level. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively. The lower panel of this table shows the results of Wald-test to test the null hypothesis that the coefficients of manager ownership and family ownership (less family-manager ownership) are equal. In parentheses are p-values. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively.

On the other hand, as seen in Figure 2, family ownership is limited in many of heir managing firms. Therefore, the scale of management ownership is also limited in those firms. If performance is boosted only by exceptionally large

family ownership and management ownership, the results of Table 5 reflect the trend in some firms and do not represent the overall trend of Japanese firms.

In Table 6, we examine whether management ownership and family ownership (less family-management ownership) have a positive effect on performance even in situations where family ownership is sufficiently low. Specifically, the regression analysis in Table 6 is conducted on subsamples with family ownership less than 5%, 10%, and 20%.

The results show that management ownership is insignificant only for ROE in column (6), but maintains positive and significant coefficients in columns (1)-(5). This indicates that management ownership is fully effective in boosting performance even with family ownership of less than 5%, 10%, and 20%. On the other hand, family ownership (less family-management ownership) was not observed to be positive and significant in either column. Therefore, family ownership was not found to boost performance unless it was held on a large enough scale, such as 20% or more.

Since the analyses in Tables 5 and 6 are based on samples that include non-family firms, it is expected that the effects of management ownership would work similarly even for non-family firms. In table 7, we directly examine how management ownership is related to performance in non-family firms by using a subsample of non-family firms.

The results show a positive and significant coefficient of manager ownership for ROA. Thus, the results suggest that even non-family firms can improve their performance if they retain sufficient manager ownership.

Table 7
Effect of management ownership on non-family firms' performance: OLS regressions

Subsample=	Non-family firm	
Dependent variable=	ROA	ROE
	(1)	(2)
Management ownership	0.203**	0.005
	[0.088]	[0.281]
Intercept	0.035***	-0.108*
	[0.013]	[0.056]
Control variables	Yes	Yes
Industry dummy	Yes	Yes
Year dummy	Yes	Yes
R^2	0.190	0.088
Sample Size	20,905	20,905

This table shows the results of pooled OLS regression on non-family firm. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded. The definitions of all variables are explained in Appendix Table 2. The dependent variables take the figures at the end of each period and other variables take the figures at the beginning of each period. Each variable was winsorized at 1st and 99th percentile. In parentheses are robust standard errors corrected for clustering at the firm level. ***, **, * indicate statistical significance at 1%, 5%, and 10% (two-tail) test levels, respectively.

To robustness check for main results (Table 5, Table 6), we also use random effect model and firm level fixed effect model for these regressions. Our dataset consists of a cross-sectional time-series panel. In the preceding regressions, we control for lack of independence among observations from the same firm by robust standard error corrected for clustering at the firm level. Panel regression allows us to consider the unobserved and time-invariant heterogeneity of our sample firms.

When we use random effect model and firm level fixed effect model for these regressions, the coefficients of manager ownership and family ownership (less family-manager ownership) are qualitatively identical to preceding results except for column (2) and (4) of Table 6. On the other hand, the coefficients of dummy variables of founder firm and heir managing firm are different to preceding results. As a trend, the coefficient of founder firm is insignificant and the coefficient of heir managing firm is negatively significant. These results indicate that the effect of manager ownership is

slightly robust for the endogeneity problem caused by the unobserved and time-invariant heterogeneity of our sample firms.

IV Japanese Corporate Governance: Its Uniqueness Comparative to the Anglo-American Corporate Governance Model

The Traditional Japanese Corporate Governance Model

Comparative to the Anglo-American corporate governance model, the traditional Japanese corporate governance model has been described as a stakeholder model where stakeholders are placed over shareholders.[45] Major stakeholders are employees, banks, and business partners. Japanese companies try to keep long-term relationships with employees ("lifetime" employment), with banks (the main bank system), and with business partners (keiretsu).

The internal governance is based on consensual decision-making processes among management and employees who keep much better relationships relative to Anglo-American counterpart. Before 2000, almost all members of the board are internally promoted insiders.[46] The main bank is responsible for monitoring its debtor company (the delegated monitor) and intervening in the management only in financially distressed times (the contingent monitor).[47] Business partners are at the same time the stable shareholders (cross-shareholding) who prioritize their interest to continue the business with the issuing company rather than the interest to maximize their investment return.[48] All the stakeholders share the same objective of maximizing long-term growth rather than short-term profits. Contrary to the

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[45] *See* Masahiko Aoki, *Towards an Economic Model of the Japanese Firm*, 28 J. ECON. LIT. 1 (1990); John Buchanan, Dominic H. Chai & Simon Deakin, *Agency Theory in Practice: A Qualitative Study of Hedge Fund Activism in Japan*, 22 CORP. GOVERNANCE: AN INT'L REV. 296, 299-300, 306-308 (2014); Dan W. Puchniak, *No Need for Asia to be Woke: Contextualizing Anglo-America's 'Discovery' of Corporate Purpose*, 4 RED 14 (2022) [https://www.cairn-int.info/journal-red-2022-1-page-14.htm].

[46] *See* ZENICHI SHISHIDO & WEI SHEN, INCENTIVE BARGAINING AND CORPORATE GOVERNANCE: COMPARATIVE ENTERPRISE LAW ACROSS THREE LEADING ECONOMIES Ch.2 Sec.2 (forthcoming, 2024)

[47] *See* Zenichi Shishido, *The Incentive Bargain of the Firm and Enterprise Law: A Nexus of Contracts, Markets, and Law*, *in* ENTERPRISE LAW: CONTRACTS, MARKETS, AND LAWS IN THE US AND JAPAN 1, 18, note 58 (Zenichi Shishido ed., 2014).

[48] *See id.*, at 35-39.

Anglo-American corporate governance model, management is monitored neither by the board of directors as an agent of shareholders nor by hostile takeovers.[49]

One of the co-authors describes the traditional Japanese corporate governance by using the concept of "company community" as the key to understanding Japanese practice.[50]

The company community consists of management, board members, and full-time regular employees who share an identity as "company men." Being hired by a company means belonging to the company community. The members of the company community are given tenure, ensuring lifetime employment, but they are not allowed to change communities. The existence of the company community itself has limited the development of the external labor market.[51]

Seniority and egalitarian systems also support the concept of company community. Typically, for the first fifteen years after hiring, the distribution of position and pay is basically equal among employees with the same seniority. This practice avoids excessive dissension among the members and keeps the community stable.[52]

A Short Description of the Period of Our Statistical Study: 1991-2010

The period from 1991 to 2010 is frequently quoted as the "lost two decades." The rapid economic growth started from the 1960s and ended in the middle of the 1980s with the emergence of the economic bubble in 1985. Japanese companies lost their "frontier" and wasted their free cash flow during the bubble era. The bubble burst in 1990 and the post-bubble long recession started.[53]

In 1997, Japanese financial crisis occurred, and several major financial institutions failed. Japanese businesspeople were shocked by the fact that the

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[49] *See id.*, at 28, 36-37.
[50] *See* Zenichi Shishido, *Japanese Corporate Governance: The Hidden Problems of the Corporate Law and Their Solutions*, 25 DEL. J. CORP. L. 189 (2000).
[51] *See* Shishido & Shen, *supra* note 46, Ch.2 Sec.2.
[52] *See id.*
[53] *See id.*

Ministry of Finance let these banks and security firms fail and changed their mindset.[54] Even surviving banks were suffered from their bad loans and forced to liquidate the cross-holding stocks of their client firms to improve their damaged balance sheets. Banks started to sell the well-performed stock and kept the stock of weak mediocre firms, which cannot survive without main banks' support. Most stocks, which banks sold, were obtained by foreign institutional investors. Since then, the stock ownership structure of Japanese listed companies has been diverged to the top listed companies with dispersed ownership and the mediocre listed companies with stable ownership by keeping cross-holding.[55] Most of the listed family firms are included in the latter group.

In 2000, the stock holding by the outsider shareholders, such as pension funds and individuals, surpassed that by the insider shareholders, such as banks and business corporations, for the first time since the late 1960s. The share of foreign institutional investors increased to more than 30%.[56]

Deregulation and corporate governance reforms, supported by the Koizumi administration from 2001, started. Although the US-type board with committees was introduced as an option besides the traditional board with kansayaku, very few companies chose the new option. Still, most listed companies' boards were dominated by insiders and few companies appointed independent directors.[57]

The first serious hostile takeover attempt was made by a newly listed IT company, Livedoor, against a traditional radio station company, Nippon Broadcasting, in 2005. The Tokyo High Court injuncted the defensive measure taken by Nippon Broadcasting.[58] METI and MOJ issued TOB

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[54] *See id.*
[55] *See* Hideaki Miyajima, The Diversification of Corporate Governance Arrangements: Ownership Structure and the Board of Directors, *in* ENTERPRISE LAW: CONTRACTS, MARKETS, AND LAWS IN THE US AND JAPAN 267, 269-270 (Zenichi Shishido ed., 2014).
[56] *See id.*, at 268-269.
[57] *See* Zenichi Shishido, *The Monitoring Board Revisited*, in CORPORATE LAW AND ECONOMICS 41-45 (Adam B. Badawi ed., 2023).
[58] *See* Livedoor v. Nippon Broadcasting, Tokyo Koto Saibansho [Tokyo High Ct.] Mar. 23, 2005, Hei17 (ra) no. 429, 1899 HANREI JIHO [HANJI] 56 (Japan).

Guidelines almost at the same time.[59] After that, however, several hostile takeover attempts failed, and the Japanese corporate control market did not emerge until 2020[60].

The Leman shock of 2008 damaged the Japanese economy a lot and the NIKKEI DOW hit the bottom, which had not rebounded until the Abenomics by the second Abe administration started in 2013. Although the cross-shareholding had been further dissolved and many companies started to lay off employees, the company community norm looked robust[61].

Overall, the two decades were an era of recession. Japan was changing underwater,[62] but the obvious result was not observed during that time.

V Heir Managing Firms' Foreign Natures of Corporate Governance as Japanese Listed Firms

Although the stock ownership structure of Japanese listed family firms and that of Japanese listed firms in general are similar, their selections of management and incentive mechanism of management, which include not only management ownership but also CEOs' tenure, are totally different.

We focus on the heir managing firm, in which a family member is the senior manager (we exclude the firm, in which the founder is alive). In Japan, the non-heir managing firm, in which the founding family is within the top 10 shareholders and the senior manager is not a founding family member, is very few. Among heir managing firms, although there are substantial numbers of firms with large founding family ownership (more than 20%), the vast majority is the firm with less than 20% founding family ownership. Moreover, the 5%-tile group with less than 5%, including negligible founding family

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[59] See Ministry of Economy, Trade and Industry & Ministry of Justice, *Guidelines Regarding Takeover Defense For The Purposes Of Protection And Enhancement Of Corporate Value And Shareholders' Common Interests* (May 27, 2005),www.meti.go.jp/policy/economy/keiei_innovation/keizaihousei/pdf/shishin_hontai.pdf.

[60] *See* Curtis J. Milhaupt & Zenichi Shishido, *The Enduring Relevance of the Poison Pill: A U.S.-Japan Comparative Analysis*, 28 STAN. J. L. BUS. & FIN. 336 (2023).

[61] *See* Shishido & Shen, *supra* note 46, Ch.2, Sec.2.

[62] *See* Milhaupt & Shishido, *supra* note 60, at 351-352.

ownership is the largest group (Figure 2).

Typically, heir managers inherit substantial stocks, which salaryman managers cannot afford to own. It is well known that Japanese executive compensation in general is much smaller than US and European counterparts and equity compensation is negligible.[63] At least, during the lost two decades, it was very difficult for non-family firms to realize high management ownership. Only family firms were able to make it.

It is plausible that exceptionally high management ownership of heir managing firms in Japan was at least an important reason for their relatively good accounting performance to that of non-family firms, even though they were managed by top managers who were picked from small family pools.

In addition to their high management ownership, heir managing firms have several foreign natures of corporate governance as Japanese listed firms.

First, heir managers ordinarily worked at another firm before they start working at their family firms while typical salaryman managers develop their career in the same company soon after graduating from college.[64]

Second, heir managers' career path is much faster than that of salaryman managers. On average, heir managers are appointed as directors around 35 years old and become presidents in their late forties while salaryman managers are appointed as directors in their early fifties and become presidents around 60 years old.[65]

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[63] *See* Katsuyuki Kubo & Takuji Saito, The Relationship between Financial Incentives for Company Presidents and Firm Performance in Japan. 59 JAPANESE ECON. REV. 401, 414 (2008). Kubo and Saito find that CEO pay-performance sensitivity decreased substantially after 1990, which is considerably lower than that in the United States. *See also* Brian J. Hall & Jeffrey B. Liebman, *Are CEOS Really Paid Like Bureaucrats?*, 113 QUARTERLY J. ECON. 653 (1998). Kubo and Saito conclude, "the financial incentive of presidents in Japan's large firms has become more like that of bureaucrats." *See* Kubo & Saito, *supra* note 63 at 415.

[64] The observation is based on our original handpicked data which will be appeared in our forth coming mimeo.

[65] *See id.*

And third, heir managers' tenure as president is much longer than that of salaryman managers. On average, the former is 15.1 years and the latter is 5.7 years.[66]

These characteristics of top managers are extraordinal in Japanese listed non-family firms, which were bounded by egalitarian "company community norms" that used to give incentives to work hard to company community members or full-time regular employees during the high economic growth era, but turned out to be an anchor to change during the lost decades.[67] Only listed family firms were free from the curse of the company community in Japan.

Although the corporate governance of Japanese listed family firms is an outlier in Japanese corporate governance, its unique characteristics make sense based on Japanese corporate governance. If there were no company community norms, particularly constraints of a seniority-based system, internal promotion of top managers, and egalitarian management compensation, the meaning of existence of heir management would be lost.

VI Examples of Heir Managing Firms with Low Family Ownership

In this Chapter, we will show four typical examples of heir managing firms with low family ownership to provide readers with specific images of Japanese family firms.

Mitsubishi Pencil

The origin of Mitsubishi Pencil was the merger between Masaki Pencil and Yamato Pencil (Masaki Yamato Pencil) in 1918. Before the merger, Masaki Pencil registered its trademark, "Mitsubishi Pencil" and the three-diamond logo in 1903, 15 years before Mitsubishi Company registered its three-diamond logo. Mitsubishi Pencil has no relationship with the Mitsubishi group.

Suhara family had kept the top management position during the two decades,

[66] *See id.*
[67] *See* Shishido & Shen, *supra* note 46, Ch.2, Sec.2.

from 1991 to 2000, which is the time period examined by this article, with negligible family ownership, i.e., Suhara family has never been a top ten shareholders. Actually, Suhara family has kept the top management position since 1945 till now. The current president, Shigehiko Suhara, who succeeded the president position from his farther, Eiichiro Suhara, in 2022, is the fourth generation from the first Suhara president, Saburo Suhara.

Saburo Suhara is not the founder, but the restorer of Mitsubishi Pencil. Saburo was an engineer of Yamato Pencil. Because of the great Kanto earthquake in 1923, both Masaki Pencil and Yamato Pencil suffered huge damages and were almost bankrupt. Saburo played a major role in the merger negotiation and became one of eleven incorporators of Masaki Yamato Pencil, being allotted 50 stocks among 2000 issuing stocks (0.25%) at the time of incorporation. He became one of the seven directors and the CTO.

As the executive director from 1935 and as the president from 1945, Saburo took the leadership of Mitsubishi Pencil during the war and after the war. After establishing the business of Mitsubishi Pencil, he succeeded the president position to his son, Yoichi Suhara, in 1960. The company was listed at the Tokyo Stock Exchange 2nd class in 1962 and declassified to the Tokyo Stock Exchange 1st class in 1972. Yoichi succeeded the president position to his son, Eiichiro, in 1981.

During our examination period, management ownership held by Eiichiro Suhara slightly increased from around 0.3% to around 0.4%[68]. It is a bit less than the median management ownership of heir managing firm (0.536%) and about ten times larger than the median management ownership of a non-family firm (0.047%). Suhara family had never appeared as a top ten shareholder.

The performance of Mitsubishi Pencil had been very stable. Its sales had been between 50, 000 million yen and 60. 000 million yen and its profit sales ratio had been between 5 and 10%. Its stock prices in 1991 and 2010 are almost same, around 1,500 yen per stock.

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[68] Yoji Suhara, who served as chairman until 1992, had management ownership of 2.3%.

Its stock ownership structure is also stable. Financial institutions had owned around 45% and business enterprises had owned around 25 %. So, the company had kept its stable ownership around 70%. The liquidity of its stock is low.

Its board structure had been changed at approximately same speed as other ordinary listed companies in Japan. In 1995, there were no outside directors but two "outside kansayaku," one from its main bank and another from its subsidiary. In 2010, there was one outside director, a retired business school professor, and two outside kansayaku, one was from its main bank and another was a CPA.

Three heir presidents after Saburo, the restorer of the company, are all well-educated. Yoji, the second generation, graduated from Kyoto University. Eiichiro, the third generation, graduated from Keio University and Stanford University. Shigehiko, the fourth generation, graduated from Keio University. Their career paths are very similar. Three-four years after graduating college, they started to work at the company, became a director around thirty years old, and became the president around forty years old. Such a fast-track career path could never be available for salaryman managers in non-family firms in Japan, but is a typical one for heir managers of family firms.

In sum, Mitsubishi Pencil is a stable company from any perspective. Although it struggled to survive during the tough time under the strong leadership of Saburo, after the succession to Yoji, its business has been stable. The company established its brand image in an oligopolistic product market. Although its growth rate is low, it has kept a stable profit. So far, the company needs no strong leader to reform its business. Its corporate governance is neither good nor bad, keeping a Japanese standard. Its stock ownership structure had not changed. The vast majority of them are stable shareholders, which have no incentive to vote against heir managers. All heir presidents from Suhara family are well educated, look smart, and received "emperor education" since they were young. Nobody, including company community members, trading partners, banks, and shareholders, has strong incentive to complain about the succession of the president position by the Suhara family.

Brother Industry

Brother Industry is a well-known Japanese electronics manufacturer. The company expanded its business in the 1980s by developing a worldwide printer business, which now boasts sales of about 700 billion yen.

Brother Industry was founded in 1908 as a sewing machine maker by Kenkichi Yasui. In 1934, the company was reorganized into a stock corporation by Kenkichi's sons, brothers Masayoshi and Jitsuichi Yasui. Masayoshi Yasui served as president until 1974 and as chairman until 1977. He was succeeded by his younger brother, Jitsuichi Yasui, who served as president from 1975 to 1978 and as chairman from 1979 to 1987.

The hereditary management of the founding family continued, with Jitsuichi's son, Yoshihiro Yasui (president: 1989-2003, chairman: 2003-2009), and Jitsuichi's daughter-in-law, Seiichi Hirata (president: 2003-2007), also serving in management positions. Yoshihiro Yasui has continued to be involved in the management of the company by assuming the position of Senior Advisor, and furthermore, Yoshihiro's son, Koichi Yasui, is serving as a director of the company as of 2023.

Although the Yasui family has long been recognized for its hereditary management, the family's shareholding in the company has been absent from the list of the top 10 largest shareholders since 1981, when it held 1.42% of the company's stock, and it was never recognized as one of the top 10 largest shareholders during the period analyzed in our paper. The shareholding ratio directly held by management was 0.04-0.8% during the sample period, and it does not appear that management has a sufficient voice as a shareholder. On the other hand, based on the market capitalization of Brother Industry, the market value of each family manager's shareholding ranged from 500 million to 1.25 billion yen.

Nisshin Seifun

Nisshin Seifun Group operates flour milling, processed foods, health foods, yeast and biotechnology, prepared foods, engineering, and mesh cloth. Of these, the core business is flour milling, and with a 40% share of the domestic

flour market, Nisshin Flour Milling, which is a subsidiary of Nisshin Seifun group, is the largest flour miller in Japan. In recent years, the company has been expanding its business overseas. In 2012, Nisshin Flour Milling acquired Miller Milling Company LLC, making it the fourth largest flour miller in the U.S. In 2013, the company acquired Champion Flour Milling, the largest flour miller in New Zealand, making it the largest flour miller in Oceania. Sales of the Group in FY2022 is 680 billion yen and its market capitalization is 500 billion yen.

Nisshin Flour Milling originated from Tatebayashi Flour Milling, which was established by Teiichiro Shoda in 1900. After a series of acquisitions, the company changed its name to Nisshin Flour Milling in 1908. Teiichiro remained in the management position as president until 1936 and then as chairman until 1947. Eizaburo Shoda, Teiichiro's third son, took over the management of the company. Eizaburo served as president until 1973, and then as chairman until 1989. After Eizaburo, Yoshio Ishii and Takashi Saeki, who were not from the founding family, served as presidents. The next president from 1986 to 2004 was Eisaburo's second son, Osamu Shoda. Osamu served as chairman of the board after stepping down as president until 2009. 4 presidents have served since 2009, but none of them are from the Masada family, nor are any of the directors from the Shoda family.

Thus, from the company's founding in 1900 until 2009, the company was always managed by a member of the Shoda family, either as president or chairman. However, the Shoda family's ownership is not high: in 1956, the Shoda family was not among the 10 largest shareholders, holding only about 1% of the company's stock, and was never listed among the 10 largest shareholders after that. When Osamu stepped down as chairman in 2009, his ownership was only about 0.1%. This is equivalent to 240 million yen.

OMRON

OMRON is a famous electric manufacturing company in Japan. It supplies innovative products and services in various fields such as industrial control equipment and medical devices. In 1971, it developed the world's first ATM (Automated Teller Machine) and in 1982, it launched the world's first digital blood pressure monitor.

Tateishi Electric Manufacturing Company, the predecessor of OMRON, was established in 1948 by its founder, Kazuma Tateishi. He served as President from 1948 to 1979. In 1979, Kazuma Tateishi stepped down as Chairman, and his eldest son, Takao Tateishi, became President. In 1987, Tateishi's third son, Yoshio Tateishi, became President and Kazuma Tateishi became the advisor. At the same time, Takao Tateishi became Chairman, and his second son, Nobuo Tateishi became the vice chairman. In 1990, the company name was changed to OMRON. Kazuma Tateishi died in 1991 at the age of 90. 1995 saw the sudden death of Takao Tateishi, and his second son, Nobuo Tateishi, was appointed from vice chairman to Chairman. In 2003, Hisao Sakuta, who was not a member of the Tateishi family, became President, but Yoshio Tateishi was still Chairman with representation rights. In 2011, Yoshio Tateishi became the honorary chairman without representation rights. At that time, Hisao Sakuta became Chairman and Yoshihito Yamada became President, thus the family was no longer present in the management team.

From 1993 to 2010, when we analyzed the data, the presidents or chairmen with representation rights were family members who were children of the founders of the company. On the other hand, the family ownership other than the equity held by these management teams has been consistently negligible during this period. Thus, it can be said that this was a typical low family ownership family company.

During this period, Yoshio Tateishi was President and Representative Director until 2003 and Chairman and Representative Director after 2003, which means that Yoshio Tateishi was in the management all the time. Yoshio Tateishi's shareholding has ranged from 0.6% to about 0.35%. This is equivalent to 3 billion yen to 1 billion yen. In the 16 years from before he became president until he retired, he greatly increased OMRON's overseas sales by approximately four times and its total sales in Japan and overseas by 1.9 times, and he is also called the middle founder of OMRON.

Summary: Comparison of the Four Companies

The following figure shows the historical change of founding family

ownerships since their data is available and that of Presidents and Chairmans of each company. It vividly demonstrates how long these firms have kept family management without substantial family ownership.

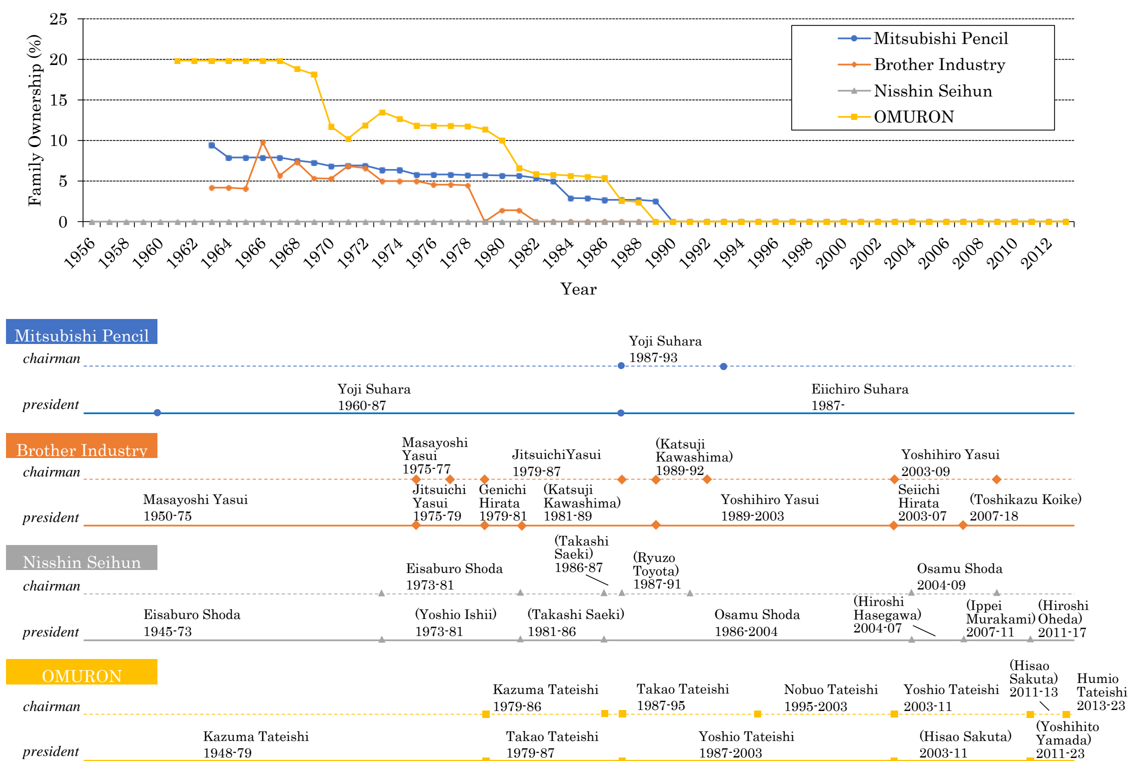

Figure 3
Historical Movement of Family Ownership and Family Management in the Four Companies
The Upper graph of this figure shows the historical change of founding family ownerships of Mitsubishi Pencil, Brother Industry, Nisshin Seihun and OMURON since their data is available. The lower graph of this figure shows the historical change of the positions of president and chairman of each company. Parentheses indicate that the managers are not founding family members.

VII Conclusion: Implication and Future Agenda

Japanese corporate governance and Japanese listed family firms are both outliers in the world. At the same time, the corporate governance of Japanese listed family firms is an outlier in Japanese corporate governance. Although Japanese listed family firms' shareholder monitoring is not so different, even weaker than that of Japanese non-family firms, their top managers' incentive mechanism is totally different from that in Japanese non-family firms: closer

to the Anglo-American firms.

The co-existence of two different corporate governance styles, which are influencing each other, in the same country showed us an interesting phenomenon.

During the lost two decades, Japanese listed firms suffered low accounting performance compared to US and European listed firms, although their shareholder monitoring had been increased, via decreasing cross-shareholdings and an increase of foreign shareholders. On the other hand, Japanese heir managing firms with low family ownership perform relatively well in Japanese listed firms, although they kept substantive cross-shareholdings without foreign shareholders, and without controlling shareholders. A uniqueness of heir managing firms among Japanese listed firms is that they have Anglo-American style management, particularly with substantive equity incentives.

The Anglo-American corporate governance model tells us that both shareholder monitoring and management incentives are important for the firm to perform well. The questions, however, have not yet been argued: which has a more important impact on firm performance; whether they are compliment or not. They are our future research agenda.

Appendix Construction of Dataset, and Supplementary Tables

Since comprehensive data sources on the ownership and management of founding families are not available in Japan, we manually collected data from several sources. Our sample covers the period from 1991 to 2010, and firms listed on the first section and the second section in Japanese stock exchanges. To construct our dataset, we first identified the founders of the firms by using "Nihon Kaishashi Soran" (firm history compendium) published by Toyo Keizai shinposha, each company's website, and "Yuka shoken Hokokusho" (annual securities report). The Nihon Kaishashi Soran is a compilation of the histories of 3,072 listed firms as of 1995. For firms not listed here, we checked their websites for information about their founders. In cases where we could not find information on the founder through these processes, we use Yuka shoken Hokokusho and treated the manager of the firms at the time it was established as the founder[69].

Second, we identified whether the founders are still alive or not from "Nikkei Telecom 21" from Nihon Keizai Shinbun[70]. Nikkei Telecom 21 provides a searchable database of newspaper articles from 1949 onward. In this paper, we search all articles for each founder and identify the death of each founder by the presence or absence of obituaries. In cases where the founder's birth year was extremely early and the death year was assumed to be before the period covered, the founder was assumed to have died regardless of whether an obituary was found or not.

Third, we identified senior managers and large shareholders of each firm for each fiscal year. To identify the president and chairman, we used the "Yakuin-Shikiho" published by Toyo Keizai Shinposha. Yakuin-Shikiho provides a list of directors of listed firms, along with their dates of birth, education, and employment history. The top 10 largest shareholders and their shareholding ratios of each firm were collected from the Development Bank of Japan's "Corporate Financial Databank". Corporate Financial Databank

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[69] Yuka Shoken Hokokusho corresponds to 10-K filings in the US, and are called "Eigyo Hokokusho" before 1950.

[70] Nihon Keizai Shimbun is the main newspaper in Japan that carries economic information

compiles financial figures of the firms and many other disclosure information.

Finally, we identified the family relationships between the founders and the senior managers and major shareholders of each firm using Nikkei Telecom 21 and Yuka Shoken Hokokusho. In Japan, when there is a change of presidents, it is often mentioned in newspaper articles when there is a blood relationship between the predecessor and successor, and Nikkei telecom allows us to confirm the blood relationship of the founding family. In addition, we can confirm the blood relationship of the founder's family members in the Yuka Shoken Hokokusho, since it is required to include information on blood relatives within the second degree of consanguinity among the directors. In addition, many founding families hold shares through private companies or foundations. Whether or not these shares are held by the family members was identified from “Tairyo Hoyu Hokokusyo” (large shareholding reports) and Yuka Shoken Hokokusyo. A person who owns 5% or more of the shares of a listed company is obliged to report on the large shareholding report, and must also declare his/her spouses and his/her asset management company as joint holders.

In the following, Appendix Table 1 summarizes the management ownership of heir managing firms summarized in table 1 for each level of family ownership, and Appendix Table 2 summarizes the definitions of the main variables used in the analysis.

Appendix Table 1
Relation between management ownership and family ownership of heir managing firm

Subsample=	Heir managing firm		
Family ownership=	<5%	<10%	<20%
Firm-year observations=	3,549	5,200	7,271
Mean	1.260%	1.831%	2.831%
Min	0.003%	0%	0%
10%ile	0.106%	0.146%	0.191%
25%ile	0.340%	0.461%	0.595%
Median	0.926%	1.297%	1.779%
75%ile	1.831%	2.545%	3.935%
90%ile	2.878%	4.366%	7.143%
Max	5.921%	9.989%	17.765%

This table shows the distribution of manager ownership for heir managing firm with family ownership less than 5%, 10%, and 20%. Heir managing firm is a firm where the

founder's heir is a president or chairman after the founder died. The sample consists of the firms listed on the first section and the second section in Japanese stock exchanges from 1991 to 2010, with financial firms and public utility firms excluded.

Appendix Table 2
Variables definitions

Variables	Definitions
Family firm variables	
Founder firm	Equals one if founder is alive.
Heir managing firm	Equals one if founder's heir is a president or chairman after founder died.
Non-heir managing firm	Equals one if founding family is not a president or chairman, but the top ten shareholder of the firm after founder died.
Ownership variables	
Management ownership	Ratio of shares held by the largest shareholder of president and chairman to total shares.
Family ownership (less family-manager ownership)	Ratio of shares held by founding family as a group within the ten largest shareholders to total shares (minus management ownership held by founding family).
Performance variables	
ROA	Ratio of operating income before tax and interests to book value of assets.
ROE	Ratio of net income to book value of net assets.
Control variables	
(Log of) Assets	(Log of) Book value of assets.
Leverage	Ratio of the sum of short-term debt and long-term debt to total assets.
(Log of) Firm age	(Log of) Years since first incorporated.

This table shows the definitions of the variables used in the analysis of chapter III.

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