Business and Society

New Perspective for Comparative Studies of Management

Edited by
The Japan Association for Comparative Studies of Management
Business and Society: New Perspective for
Comparative Studies of Management
Edited by the Japan Association for Comparative Studies of Management

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The book is edited by the Japan Association for Comparative Studies of Management. The Association started as the Association for the Socialist Management in 1976. The original aim was to investigate the negative aspects of capitalist enterprises’ management and seek the ideal management theoretically and empirically, as well as to examine socialist enterprises and study the different management in the different economic systems. Afterwards, through transformation and marketisation, the association changed its name into the contemporary one. The uncritical reliance on socialist economic systems has already disappeared, and the Association faces the new task of a study of the contemporary enterprises and management. The Association has made the energies and capabilities to find out the new framework and gain academic sympathy. Therefore, in the book, all the contributors are conscious of the methodological trial and cooperation, and the book is the result of a joint effort. The publication is prepared both in English and in Japanese.

This study has been prepared within the international conference “The New Frontier of the Comparative Business Administration” and “Enterprise and Society” in 2005 as a 30th year memorial project. The present book includes a substantial number of papers that have been developed within the above project, and all the previous versions of the papers were revised. A number of people made this book possible. It goes without saying that all the members of the Association actively discussed the new topic and many guest speakers also contributed the development of the conference. Three presidents of the Association, Keiji Ide, Nobuyuki Kadowaki and Masaki Hayashi, offered precious and skilful support for the Conference and the Publication Project. A particular gratitude goes to the post-graduates of Kyoto University, who provided a support to preparing the book.

Satoshi Mizobata

Institute of Economic Research, Kyoto University

October 2006
Foreword to Anniversary Publication

The Past President of Japan Association for
Comparative Studies of Management
Nobuyuki Kadowaki (Emeritus of Shiga University)

I would like to point out that thirty years have passed since our former Association, Japan Association for Study of Socialist Enterprise was founded in 1976 in Kobe. In commemoration of the Thirtieth Anniversary Congress, we have initially planned to publish three books which respectively discuss the problems of comparative management, multinational corporations and transitional economies. Considering our time and financial constraints, however, we have decided that we are capable of publishing only one book on the main theme of International Symposium and the Thirtieth Congress, namely Business and Society in Diversified Market Economies.

Most of our association members have been concerned with the studies of socialist economies and/or the critical analyses of capitalistic management. At the same time, we have been pursuing the feasibility of a better future for society and business. After the collapse of the socialist economic system in USSR and East European Countries, as well as the worsening of the global environment and the globalization of market economies, business enterprises have been faced with various social problems such as poverty, human rights and corporate social responsibility.

The appropriate relation between business and society is an urgent problem we are asked to solve in today's world. The following set of questions are worthy of investigation. How should business enterprises behave as a citizen of the world? What should their relations with society be? These considerations will show us the necessity of researching the relationship between business and society as a main project of our association.

I sincerely hope this publication will give us a good opportunity to advance new frontiers of comparative studies of management and also constitute a big step towards a new stage of our association.
Introduction

Theory on the System of Company, Market Economy, and Society
—Toward a Comparative “Contextual Logic” Approach—

HAYASHI Masaki (Chuo University)

Generally, studies of business management, strategy, organization, and behavior have been conducted utilizing the “logic of capital” approach. This approach is premised on the belief that the pursuit of profit is the principle objective of business, whether the researcher affirms or criticizes such business behavior.

While profit-oriented activities such as collusion, bribery, providing favors, window-dressing accounting, accident and defective product concealment are a corporate priority and have increased in Japan, public opinion favoring corporate social responsibility has also grow. Following the collapse of socialism, business competition has intensified globally as corporations seek optimal locations in which to pursue profit, and profit-oriented management has increased. Although we can explain these corporate activities utilizing the “logic of capital” approach, this approach is not sufficient to get rid of the companies’ profit-oriented activities.

Companies pursue not only direct, short-term profits, but also long-term profits through philanthropic activities, compliance with laws, corporate ethics, “eco management,” earth environment preservation, and local community activities. In fact, the number of companies positively engaged in various kinds of social programs gradually increased since the 1990s. As the style and the content of these social contributions differ widely from country to country and region to region, the “logic of capital” approach...
cannot adequately explain such corporate activities. Although diversity might be the result which “the logic of capital” brings, we should not get through of it by indicating of the diversity, and we should explain the reason of such diversities’ generation and the meaning of diversities.

The objective of this paper is to answer the question what causes the diversity of “the logic of capital”. It also attempts to propose the creation of a business administration approach based on “contextual logic,” that is, on the premise that the companies not only operate in markets, they also operate in society as well.

Since a company constitutes a market (namely, a market economy) and makes the market its base of activities, in order to create a business administration approach based on “contextual logic,” we first need to consider the relation of the company with the market economy, and then, its relation with society. Since the time and the background of the market building vary depending on country and region, and as for the "market economy" as the company’s activity base are various, the system of “company, market economy and society” in each country and area is so different that they must be able to learn from each other and develop their own system if they could respect their differences of their societal structure and economical development paths.

Moreover, without a business administration approach which compares the "company, market economy, and social systems” of each country and region, we would not be able to analyze scientifically today's market economy structure nor the important features of corporate activities and their changes. World markets are diverse. While advanced globalization and computerization continues to progress, one must also acknowledge that the corporate activities among economic maturity markets in North America, the EU, and Japan, and the market economies of economically underdeveloped countries in Asia, Africa, Latin America are by no means uniform. Such diversity depends upon the nature of the society and its culture, and the development of its market economy. In order to analyze corporate activity based on these various markets, a new business administration approach based on “contextual logic" is required.
Chapter 1


(This paper is a summary, made by Hiroshi TANAKA, of Prof. Richard Whitley's presentation in the 30th Anniversary International Symposium of Japan Association for Comparative Studies of Management held in Ryukoku University, Kyoto on May 13th 2005. Prof. Richard Whitley retains full copyright of the material and the fuller and revised version will form part of his book to be published by Oxford University Press.)

Introduction

Recent comparisons of varieties of capitalism, social systems of production and business systems have raised the following issues: how do we decide when a distinctive system of socio-economic organisation has become established as a relatively stable socio-economic formation with its own economic logic, key actors and outcomes? What are the characteristics of such systems such that significant change in them would indicate major shifts in their nature? How much change in these characteristics should be regarded being significant, and what sorts of factors, endogenous and exogenous, are likely to generate these changes? Over what time span should we judge the stability and change of business systems and varieties of capitalism, and what kinds of evidence should be adduced in making such judgements? Finally, how do institutions that structure and partly constitute collective actors and their actions themselves alter as a result of actors’ decisions, and interact across different levels of collective organisation such as regions, industries, states and international regimes?
In dealing with these kinds of questions it is important to recognise that business systems and similar concepts are ideal types of market economies. These ideal types highlight the interconnections between different parts of market economies and their links to differently organised institutional regimes to show how societies with contrasting property rights institutions and types of capital and labour markets are likely to develop different kinds of leading firms with varied organisational capabilities, priorities and patterns of sectoral and technological specialisation. They therefore help to account for continued divergences in actual political economies by articulating the particular logics associated with distinctive sets of dominant institutions. They differ in terms of the relative dominance of one type and so the prevalence of that logic over others.

The analysis of socio-economic change in industrial market economies involves considering changes in the relative strength and cohesion of competing institutional regimes and business systems that reflect and reproduce particular kinds of economic logics, rather than whether an entire society has been transformed from one ideal type to another one. Significant socio-economic change involves shifts in the dominant institutions and economic logics governing firm formation and behaviour in a society, and the nature of such institutions vary between market economies. The meaning and consequences of particular institutional shifts and changes in interest group mobilisation vary between societies with different complementary and conflicting institutions and dominant socio-economic groupings.

1. What does the analysis of socio-economic change require?

The analysis of business system change therefore requires us to deal with the following issues:

(1) The nature of the groups and interests that together constitute the dominant block in a society, how they are changing, and which other groups are becoming influential when analysing institutional and business system change. Increasingly, such analysis has to incorporate changing international constraints and opportunities as economic actors,
governance structures and socio-political groups operate across national political boundaries. 

(2) The nature of the dominant economic logic that guides the behaviour of leading firms in differently organised economies, the institutional arrangements that support and reproduce such logics, and the dominant groups that benefit from, and implement, them. Any relatively stable system of economic coordination and control is dominated by particular kinds of economic actors, such as different firms, business groups, associations and unions, types of institutional regimes and socio-political groupings that together support and follow distinctive economic rationalities and rules of competition and cooperation. 

(3) How the current institutional regime and socio-political balance in a society encourages particular kinds of firms and rationalities to prevail over competing ones. Significant changes in such systems involve changes in the nature of leading firms, their priorities, governance and core competences, in the ways that they compete and cooperate, and in the nature of dominant groups. Some changes in prevailing governance relationships amongst leading firms, agencies and interest groups, however, can occur without necessarily implying the radical transformation of dominant logics of action and elite connections.

In considering whether, and how, the distinctive business systems have changed as a result of endogenous and exogenous developments, it is therefore crucial to identify: a) the key features of the institutional regimes that encourage particular kinds of firms to dominate different economies, b) the nature of the groups directing them and the prevalent logic guiding their actions, and c) the broader political-economic groups they were supported and reproduced by.

2. Key Features of Institutional Regimes

(1) One of the central distinguishing features of institutional regimes that affects the nature and behaviour of leading firms concerns how they specify, monitor and control the powers
and responsibilities of private companies, especially their exercise of market power and ability to act opportunistically. These vary considerably between industrial capitalist societies.

(2) Another important feature of institutional regimes concerns the external provision of what Colin Crouch and his colleagues have termed “collective competition goods” (Crouch et al., 2001). These include knowledge about new technologies and markets and support in accessing them, the availability of highly skilled workers of different kinds, the development and certification of quality and technological standards, the management of labour and other disputes, and access to capital on favourable terms. The more these are provided by domestic agencies and organisations and governed by national institutions, the more embedded are companies in national and regional institutional contexts that help them to create distinctive organisational capabilities that provide competitive advantages in certain markets.

(3) In analysing changes in the major kinds of business systems, especially important are changes in these features of institutional regimes in conjunction with shifts in the dominant political-economic groups and alliances supporting them. These interest groups are often summarised in terms of rather general categories such as investors, managers and workers, but the increased differentiation of socio-economic groups and organisations in the later twentieth century requires a more elaborate set of distinctions (separation of investors, separation of managers of the larger companies, separation of skilled workers and new social movements and pressure groups’ affections on policy decisions and business strategies).

(4) Contrasting logics of economic growth, competition and cooperation can be derived from four major ideal types of institutional regimes that encourage particular kinds of firms and their strategic managers to grow in certain ways and become dominant in particular economies. These types summarise the key components of the different business environments that dominated many postwar industrial capitalist economies and generated distinctive economic logics guiding the behaviour of leading firms in them.
3. Major Endogenous and Exogenous Changes to Postwar Institutional Regimes

Many of the key features of the dominant institutional regimes that became established in the major industrial economies after the end of the Second World War have been affected by the following endogenous changes: (1) demographic and sectoral shifts, educational expansion, (2) growing large firm self-financing, (3) expansion of institutional shareownership and fund management in some regimes, and (4) expansion of mission oriented S&T policies and innovation support in some regimes. Major exogenous changes are (1) internationalisation of competition, portfolio and strategic investment and economic coordination, and (2) growth of transformational governance of economic activities, as well of course as significant geo-political shifts such as the collapse of the soviet Union.

I. Types of Institutional Regimes, Dominant Groups and Economic Logics

Many of the key features of the different kinds of political economies that became established in the early decades after the end of the Second World War can be summarised in terms of the governance structures dominating major firms, the significance and nature of externally provided collective competition goods and the nature of dominant political-economic coalitions. They can be labelled: *arm’s length*, *dominant developmentalist*, *business corporatist* and *inclusive corporatist* Their key features are listed in table 1 and will now be further discussed.

1. Arm’s length institutional regimes

Arm’s length institutional regimes have few constraints on economic opportunism and the exercise of market power. Relationships between investors, managers and workers are typically short term with few institutional incentives to develop continuing commitments
to particular business partners, and so authority sharing between employers and most employees and between companies tends to be limited and short term. Capital and labour markets in these kinds of regimes are flexible, with few restraints from state agencies, business associations and unions on entries and exits. Business associations and labour unions are usually fragmented and weak. There are few externally provided collective competition goods in these regimes.

Economies dominated by such regimes allow the strategic managers of large firms considerable independence and power, especially when shareholdings are fragmented, and bondholders dominate financial markets. However, such commitment and freedom from capital market pressures for increasing investor returns can decline in these economies when inflation reduces the real returns received by bondholders and insurance companies, pension funds and other intermediaries increase their investments in equities. This increases the concentration of control over stocks and shares and changes the balance of power between large firms and their shareholders – or rather the managers of shareholder funds. Fund managers focus on increasing the relative returns of the portfolios they manage and are much more willing to trade in order to demonstrate their short term success. As a result, liquidity grows and the market for corporate control becomes intensified.
# Changing Institutional Regimes and Business Systems

## Table 1

**Key Features of Four Ideal Types of Institutional Regimes Governing Market Economies**

<table>
<thead>
<tr>
<th>Key Features</th>
<th>Arm’s Length</th>
<th>Dominant Developmentalist</th>
<th>Business Corporatist</th>
<th>Inclusive Corporatist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constraints on Economic Opportunities &amp; Autonomy from: State Elites</td>
<td>Limited Low Low Low</td>
<td>High Low Low Low</td>
<td>Considerable High Low Low</td>
<td>Some High Considerable Considerable</td>
</tr>
<tr>
<td>Business Associations</td>
<td>Market-based</td>
<td>State subsidised for favoured firms Limited, Generic</td>
<td>State and bank co-ordinated Limited, except for general education</td>
<td>Bank-based Considerable, sectorally based</td>
</tr>
<tr>
<td>SME Associations</td>
<td>Public Policy Focused</td>
<td>State provided for favoured firms and sectors State – big business owners – top managers</td>
<td>State assisted diffusion to larger firms Bureaucratic elite and strategic managers of large firms</td>
<td>State assistant diffusion to large and small firms</td>
</tr>
<tr>
<td>Dominant Coalitions</td>
<td>Strategic managers of large firms, sometimes with financial elites</td>
<td>Growth and economic dominance through obtaining state support and diversifying across sectors to limit risk Growth and economic diversification, risk sharing and joint development in business groups</td>
<td>Growth through incremental innovation andcustomisation</td>
<td></td>
</tr>
<tr>
<td>Prevalent Goals and Strategies</td>
<td>Growth and market power of individual firms through acquisitions, innovations and predatory pricing. Sometimes, investor returns.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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10
Strategic managers of large firms in this situation have to deal with financial institutions. The top managers of the largest companies then join financial elites and large shareowners to constitute the dominant political economic block, separately from the other managerial and technical labour force of large firms.

A further important feature of arm’s length institutional regimes is the relative heterogeneity of forms of economic organisation across sectors and regions within the broadly low commitment business environment. Especially where local and national state agencies have implemented “mission-oriented” science and technology policies supporting the provision of collective competition goods for specific public policy goals such as defence or health improvement, novel patterns of firm development can become established in the arm’s length institutional regimes. The most notable example of such variability is Silicon Valley.

Such variability of actors and patterns of development in arm’s length regimes highlights the potential diversity of relationships between investors, companies, managers and employees in different sectors and regions. The homogeneity of norms and conventions governing relations between economic actors is relatively limited in arm’s length regimes.

2. Dominant developmental state regimes

Dominant developmental state regimes are characterised by relatively autonomous and cohesive states pursuing economic development goals. The state here provides a variety of collective competition goods that are crucial for large firm survival and development.

Intermediary associations, labour unions and other potential interest groups that could restrict favoured firms’ independence of action are typically weak and/or repressed by state elites. Political-bureaucratic elites dominate such regimes in alliance with the owner managers of large businesses.

High levels of business dependence on the state support encourage owner managers to pursue strong growth goals. To meet state demands and limit political as well as
Changing Institutional Regimes and Business Systems

commercial risks, firms typically try to control production chains through vertical integration and diversify across industries and markets. These kinds of political economies are therefore differentiated between the state coordinated sectors dominated by large, diversified business groups controlled by owner-managers, on the one hand, and market coordinated sectors where smaller companies fight for survival with little external support, on the other hand.

3. Business, or “micro”, corporatist regimes

Corporatist institutional regimes in contrast involve peak associations of different socio-economic interests in developing and implementing economic policies, usually in conjunction with promotional state agencies. These associations have strong de jure or de facto power over their members and so exert considerable constraints on individual firm or union behaviour. In business, or “micro”, corporatist regimes, associations of large forms and business groups are much more organised and cohesive at the national level than are labour unions and small business groups.

Financial organisations, especially banks, are more integrated into national policies of industrial growth in these kinds of regimes, and more subordinated to the accomplishment of development goals. In contrast, labour management and skill formation issues are typically delegated to individual companies.

Collective competition goods are here quite widely provided by associations and organisations external to the firm, often coordinated by state agencies and big business groups to pursue developmentalist objectives. While technology policies in these kinds of institutional regimes are more “diffusion” than “mission-oriented”, and so support general technical improvements throughout favoured industries, SME development and protection from large firms is not a core priority of business corporatist societies. In general, the interests of existing large firms dominate those of smaller ones, and emerging technologies and industries are more developed by divisions and departments of them than by new companies. In such a system, there are strong incentives to grow since managers and
employees benefit greatly from being part of larger organisations, and financial returns to investors are typically less important than increasing market share.

4. Inclusive corporatist institutional regimes
More inclusive corporatist institutional regimes extend involvement in economic policy development and implementation to labour union federations and smaller firms. Collective competition goods provided by extra-firm associations and organisations include skill formation and credentialing systems, wage and other reward bargaining support, as well as technology upgrading and marketing/distribution assistance for SMEs.

As a result, firms are subject to more veto groups and institutionalised constraints on economic opportunism in these kinds of regimes than in the others discussed here. Cooperation between the strategic managers of large companies, their domestic competitors, customers, suppliers and union leaders is encouraged. Authority sharing between companies within sectors and between employers and skilled employees is also encouraged.

These kinds of regimes tend to favour existing industries and capabilities over new ones, with radically new technologies that could threaten current coalitions, skills and markets being developed relatively slowly. All key stakeholders favour growth goals over short-term investor returns. Rather, growth is a more general priority for all firms in each sector than being a crucial goal for individual firms. The considerable sunk costs are involved in developing sectoral growth and industry specific skills and knowledge.

II. Changes in Institutional Regimes and Business Systems

Insofar as distinctive institutional regimes approximating to these ideal types did become established in many post second world war market economies, they were predominantly national in nature as nation states had considerable autonomy in managing economic development, and the key institutions governing property rights, capital markets and labour
markets were nationally specific. Accordingly the establishment of different kinds of business systems and dominant economic logics occurred mostly at the national level, with major variations in their characteristics resulting from different state structures and policies.

The post-war growth in cross-border trade and investment, the expansion of international capital markets and increasing significance of international governance have affected the pre-eminently national character of the major institutions since the breakdown of the Bretton Woods’ regime in the 1970s. This increasing internationalisation of economic activities seems likely to have reduced the strength of domestic institutional constraints on opportunistic behaviour of the largest companies in many countries, as well as weakening the cohesion of domestic associations and alliances and limiting many states’ ability to provide direct support for domestic companies.

However, the nation state remains the pre-eminent unit of political mobilisation and competition as well as being the key agency guaranteeing and policing private property rights, and many of the key institutions governing economic activities remain nationally. In addition, many of the key features of the dominant institutional regimes have been affected by more endogenous changes. It is when these more internal changes complement shifts in the international environment that we can expect significant changes in the nature of dominant national institutional arrangements and patterns of economic organisation to occur.

Many of these endogenous and exogenous changes can be expected to weaken domestic institutional constraints on large firm opportunism and to lessen the importance of domestically provided external collective competition goods for the more internationalised companies. They may additionally reduce the cohesion of alliances between state elites and big business groups, as well as the dependence of strategic managers of the largest firms on banks and industry associations.

As Table 2 suggests, the nature and consequences of these kinds of change vary between types of regimes and do not always have straightforward outcomes because of
mediating factors. In general, we would expect large firms that have achieved dominant positions in large domestic economies through developing distinctive competitive competences as a result of complementary and tightly coupled institutions to be less willing to alter these, or to initiate major changes in domestic institutions, than those in smaller economies with less distinctive and cohesive institutional arrangements. It is therefore necessary to consider how different endogenous and exogenous changes are likely to affect different kinds of institutional regimes in greater detail.

Alliances between firms and, and between organised labour and business, in these countries can become less effective as the fates on individual companies develop in contrasting ways and the homogeneity of relations between investors, intermediaries, managers and employees declines. These expectations are summarised in table 2.

1. Arm’s Length Regimes

Probably the most significant endogenous changes on the arm’s length type of institutional regime occurred in their capital market based financial systems with the further fragmentation of beneficial shareholding and the concentration of fund management and financial intermediation in equity markets. There has clearly been a major shift in the control of capital resources towards institutional shareholders and fund managers, and a corresponding decline in the autonomy of strategic managers of large firms and their ability to pursue longer-term growth.

This growing power of organised investors and intensification of the market for corporate control has been accompanied in many such economies by changes in the orientation, experience and interests of strategic managers themselves in the late 1950s and 1960s. Subsequent intensification of pressures from financial markets for continuing increases in investor returns further reinforced the view that companies were combinations of assets to be managed for maximum “shareholder value” by “leaders” who could be sacked if they failed to deliver.
<table>
<thead>
<tr>
<th>Endogenous and Exogenous Changes</th>
<th>Constraints on Economic Opportunism</th>
<th>External Provision of Collective Competition Goals</th>
<th>Mediating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic shift, economic growth and education expansion</td>
<td></td>
<td>Growth of educated labour force</td>
<td>Size and significance of domestic market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Complementarities of domestic institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Openness to foreign competition and investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Important of domestic institutional regime for developing key organisational capabilities</td>
</tr>
<tr>
<td>Increase in large firm self-financing</td>
<td>Reduced for big firms</td>
<td>Less important for big firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth of institutional ownership and fund management, intensification of market for corporate control in some regimes</td>
<td>Reduced in some states</td>
<td>Facilitation of entry and exit and of market for acquiring companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Detachment of top managers from other employees and firms, emergencies of coalition with financial elites</td>
</tr>
<tr>
<td>Expansion of mission-oriented technology policies and support for research based innovations</td>
<td></td>
<td>Reduced risks for entrepreneurial technology firms, access to new knowledge and skills in favoured industries</td>
<td>Growth of new business elites in innovation-led industries</td>
</tr>
<tr>
<td>Internationalisation of competition and investment</td>
<td>Reduced, especially for MNCs</td>
<td>Reduced significance for MNCs, reduced direct state support</td>
<td>Separation of MNCs, decline in cohesion of domestic associations and alliances</td>
</tr>
<tr>
<td>Growth of transnational governance especially in EU</td>
<td>Reduced</td>
<td>Reduction in direct state support for domestic firms, increase in indirect support through labour market and innovation policies</td>
<td>Weakening of domestic alliances, some transnational alliances and interest groups in EU</td>
</tr>
</tbody>
</table>
With the periodic booms in mergers and takeovers and increasing intensity of
corporate restructuring since the 1970s, top managers have become increasingly detached
from the fates of their short term employers, and other employees, and their interests have
effectively become aligned with other wealth holders and financial organisations such as
private equity firms. Strategic managers of the largest companies have combined with the
leaders of the financial services industry to constitute a powerful socio-economic block
pursuing relatively short-term investor returns.

Another important, largely endogenous, change concerns competition and
innovation policies. More liberal approaches in the 1980s relaxed many of anti-trust
regulations and policies and, encouraged greater sectoral concentration of resources and
control. Additionally, increasing concern with national competitiveness in the face of
growing East Asian success in both domestic and export markets led some states to
encourage pre-competitive cooperation between innovative firms in high technology
industries and change the patent system to encourage academics and universities to
become more proactive in the commercialisation of the results of scientific research.

In the 1980s and 1990s many states, notably the UK and USA have developed
mission oriented science and technology policies in which major resources were
committed to achieving public policy goals, especially military and health related ones
including the development and subsequent commercialisation of the Internet.

Such state support may not be sufficient to generate self-sustaining Silicon Valley
types of innovative economic organisation. Innovators need to be able to produce enough
new products and services in highly uncertain technologies faster than larger firms to
attract venture capital funding. In addition to risk capital and other business services
innovative firms are critically dependent on the supply of highly skilled researchers,
engineers and other development experts who are willing to invest their knowledge and
energies in highly risky enterprises. This type of organization requires not only the
effective functioning of a research and training system producing a wide range of skills
from technicians to post doctoral researchers and mid career engineers and scientists, but
also the existence of a fluid labour market in which people are able and willing to move between the public and private sectors as opportunities change.

2. Dominant Developmentalist Regimes
Changes in dominant developmentalist regimes have combined endogenous shifts in socio-political blocks and large firm embeddedness in domestic institutional arrangements with exogenous geo-political changes and the increasing internationalisation of economic competition and coordination. The most significant endogenous changes have stemmed from economic development and urbanisation.

In the case of the more successful dominant developmentalist states, these have generated a substantial urban educated middle class that increasingly demands greater democracy and involvement in the political system, as well as pressures to reduce the power of the dominant state-big business group elite. Together with the rise of labour mobilisation and demands for increasing rewards for employees, these shifts also imply a decline in the direct state provision of collective competition goods for favoured firms, and a general growth in large firm autonomy from the state. Such reductions need not preclude continued indirect support for economic development goals.

The generally weak nature of intermediary associations and the limited development of capital markets and financial intermediaries in this regime seem likely to reinforce owner-managers focus on corporate expansion as long as internally generated funds permit. Opportunism on the part of strategic managers and owners will become less constrained in these circumstances, especially when coupled with the increasing internationalisation of capital and product markets.

Another consequence of the increasing separation of large business groups from state tutelage and support in such regimes is the difficulty of combining fast growth with continued owner management as state subsidised credit is reduced. Additionally, business groups may become less diversified as they respond less directly to state demands and can no longer support failing subsidiaries in the absence of state subsidised credit.
Although the cohesion of the state-big business alliances may weaken in these circumstances, they seem unlikely to disappear altogether as a major socio-political force. However, states may well replace direct support for favoured firms and groups by more indirect promotion of developmentalist strategies.

At least for the faster growing economies of the postwar period, this kind of institutional regime will undergo considerable modification, and state restriction of large firm autonomy and opportunism will decline. Large firms may well become less diversified across unrelated industries and markets, but seem likely to continue to pursue growth goals, albeit subject to more stringent funding constraints.

3. Business Corporatist Regimes
Societies in more corporatist institutional regimes are often considered to have altered most as a result of the secular process of liberalisation both within and between national economies. Endogenous changes resulted from decades of continued economic growth, urbanisation and deregulation of markets have affected the autonomy of the largest firms from banks and other financial intermediaries, and from state agencies, as well as the strength of collective identities and cohesion among members of business groups and industry associations. They have additionally altered the nature and strength of dominant socio-political blocks and encouraged the creation of new interest groups, especially urban middle class ones.

In the case of business corporatist regimes, the international growth of large companies is likely to weaken their attachment to, and dependence on, domestic institutional arrangements. It seems likely to accentuate the difference between the largest firms and others such that corporatist arrangements designed to mobilise employer and trade interests across a range of firms become increasingly conflict-ridden. Equally, as the largest firms grow even bigger, their strategic managers may see their interests being less tied to the political priorities of national politicians.

As well as the strategic managers of larger firms becoming less dependent on
obligational ties with banks and state elites as they are increasingly able to finance their expansion themselves and develop treasury capabilities, the more foreign market oriented firms are likely to develop distinctive identities and concerns from their domestically focused competitors. Other changes weakening business group and inter-firm cohesion reduce the strength of big business federations and their ability to police firm behaviour.

The importance of the state in coordinating economic development is also reduced in the post high growth period of these kinds of economies. This decline in state cohesion is encouraged by changes in political coalitions resulting from urbanisation and the number and significance of traditional supporters of dominant blocks is reduced. Business corporatist alliances between big business and state elites (ex, the “iron triangle” in post-war Japan) become weakened by large scale movements to urban agglomerations, the decline of traditional industries, and the rise of new socio-economic groups with different allegiances and interest.

The reduced significance of state has been further accentuated by the growth of international governance without government and extension of “global business regulation. Such transnational developments reduce the cohesion of national business corporatist alliances and the importance of externally provided collective competition goods. Thus, the prevalent logics of action in such economies become more diverse between the more foreign focused largest firms and other domestic market oriented companies.

In the case of Japan, though, the sheer size of the domestic economy, the strong complementarities of the institutions governing capital and labour markets, including family structures and welfare policies, and the limited extent of inward FDI and competition, have limited the impact of outward investment on large firms’ behaviour, including their separation from SMEs and decline in obligational contracting and business group cohesion. The largest Japanese have maintained most of their core functions, particularly technology development, in Japan. The dominant logic governing firm behaviour and strategic managers’ interests does not seem to have been radically altered in terms of constraints on economic opportunism, the provision of collective competition
goods for most leading companies and the dominance of alliances between large firms and state elites.

4. Inclusive Corporatist Regimes

Increased firm and sector differentiation can also be expected in economies dominated by more inclusive corporatist institutional arrangements. However, the inclusion of organised labour associations and SME interests in economic policy making and implementation processes – in addition to their involvement in national skill formation systems and welfare administration in many European corporatist societies – is likely to reinforce inter-firm and state-based constraints on economic opportunism, as well as providing a wider range of external collective competition goods and so limit the degree and pace of change. While such support for coordinated economic actions within industries and regions may not greatly affect the growing independence of large firms from their house banks and other national financial institutions, it should restrict strategic managers’ ability to act opportunistically in dealing with domestic suppliers, customers and employees.

Large firm self-financing and internationalisation can be expected to increase their autonomy from national institutional constraints in some areas in inclusive corporatist institutional regimes. Some reduction in the degree of mutual dependence between large banks and the largest firms in corporatist societies in general, and some banks seeking greater financial deregulation to develop new arenas and opportunities for growth as profits from loans to their largest domestic customers decline. Despite of these trends, however, the strength and influence of large union federations is likely to restrict the decline of business associations’ cohesion and strength, and hence the overall growth of economic opportunism relative to that in business corporatist ones.

However, in the process of internationalisation labour organisations can develop divergent interests as a result of different levels of export dependence and the ability of some employers to relocate key facilities elsewhere. Such sectoral differentiation can
weaken the cohesion of labour federations as national peak associations and limit their ability. Indeed, the intensification of international competition many encourage greater cooperation between enterprise level labour representatives and management at the expense of sectoral and national solidarity amongst unions. The ability of national labour federations to discipline local unions and impose national wage bargaining agreements throughout an industry may well decline in the more internationalised sectors as seems to have happened in some European corporatist economies such as Germany and Sweden in the 1990s.

The growth of inward FDI and portfolio investment can also weaken corporatist arrangements as foreign investors are less committed to nationally specific agreements and compromises, and may actively seek to change them (ex. some foreign firms in many former state socialist economies in Eastern Europe). Especially when foreign companies have considerable market power relative to the size of the economy and leading domestic competitors, large scale external investments seem likely to weaken constraints on opportunism and generate more varied forms of interest representation. They also provide alternative employment opportunities and careers for managers and technical experts that may reduce their attachment to domestic institutions and groups, increasing the diversity of interest groups and separating them from other employees.

Corporatist dominated economies in Europe have additionally been affected by the policies and structures of the European Union. The prevailing approach to European integration has focused on the establishment of a pan-European market free from national barriers to entry and exit, and from “market-distorting” national provision of collective competition goods. This “neo-liberal” project has been more concerned with ensuring that economic activity was governed by standard rules and procedures throughout the single market, and so reducing transaction costs for transnational commerce. Indeed, it is difficult to see how the low democratic legitimacy of the European Commission could form the basis of a “coordinated market economy” at the European level. Instead, it has favoured the institutionalisation of a strong arm’s length regulatory regime in favour of creating a
“level playing field” for large firms.

This predilection for a liberal market regulatory regime can be expected to weaken the ability of many European states to maintain corporatist policies and enhance the influence of large firms relative to labour. At least for the largest companies the EU seems likely to reinforce their growing autonomy from national corporatist constraints and declining interest in nationally provided collective competition goods. It additionally provides an international arena for large firms to pursue their distinct interests separately from those of smaller and more nationally focused. They are more likely to identify themselves as European companies. Moreover, combination with increasing foreign ownership and listing on foreign stock markets, as well as transnational managerial careers could separate the perceived interests of the strategic managers of the largest companies from those of smaller and medium sized ones, and encourage them to invest across sectoral and national boundaries, and internationalise their supply chains.

However, these developments should be less likely in the larger economies where strong labour unions lay a significant role in administering parts of the welfare state. Additionally, the importance of corporatist arrangements may well outweigh the possible advantages of detaching large firms from irksome constraints and restrict strategic managers’ interest in transforming the dominant institutional regime. Authority sharing within and between companies can continue to be a major feature of such societies.

For these kinds of institutional regime to change significantly, not only the cohesion and dominant position of alliances between business and labour organisations would have to weaken considerably, but also the loosening of ownership and business ties between banks and large companies would have to herald qualitative shifts in dominant alliances and other features of inclusive corporatist regimes. It would need to be more far-reaching and combined with significant changes in the organisation of labour and SME representation, as well as in state policies, for the dominant logic of economic action to alter greatly. As long as the key institutions governing labour markets, skill formation and knowledge production and dissemination in countries such as Germany, it is unlikely that
Silicon Valley types of economic organisation will become entrenched there or that established firms will generate radical innovations or grow through predatory acquisitions and exploitation of smaller companies.

Conclusions

The above discussion suggests four main conclusions for the analysis of institutional and business system change.

First, the nature and consequences of changes in national and international institutions and agencies, as well as in socio-economic structures more generally, vary significantly across types of institutional regimes and concrete societies.

Second, the impact of endogenous and exogenous changes on postwar institutional regimes and business systems suggests increasing differentiation of the interests and behaviour of economic actors between sectors and political-economic groups rather than wholesale transformations. Thus cohesion of some regimes and coalitions has probably declined at the national level.

Third, many states have reduced their direct control over, and responsibility for, economic and industrial development. Rather, indirect support for developing competitive competences through training and research funding, and other infrastructural improvements, seems to have become more widespread in many countries, and states are concerned to steer public facilities and activities – such as higher education – towards developmental purposes, especially in emerging technologies and industries.

Finally, some large firms from dominant developmentalist and corporalist regimes have reduced their dependence on domestic partners, as well as limiting their susceptibility to institutional constraints. Most of them have yet to change their prevalent growth strategy radically. Some MNCs have become hybrid organizations.
Chapter 2

Transforming Business and Society in United States:
A Stakeholder approach

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I

We have seen broadly that the emerging stakeholder approach to business and society around the world has impacted on the real recognition of and the relationship between them from the beginning of the 21st century. The concept of the stakeholder is translated as ‘rigaikankeisha’ and is generally employed in the academic fields of social science in Japan. The concept is also identified in newspapers, journals, political memorandum and business circles as a vernacular.

The literature involved in the concept of a stakeholder is prevailing in any area of academics in the United States where the stakeholder approach was developed in advance of the rest of the world. This approach has been discussed on regulating utilities from the point of view of the stakeholder and the concept of a stakeholder concerning the social organization of innovation has been developed. Recently, the stakeholder approach has been discussed concerning the strategy of company growth, relationship marketing, customer satisfaction and customer loyalty, building the corporate brand and the impact on culture in multinational corporations.

Meanwhile, people around the world are attempting to construct a theory of stakeholder management. The challenge of making the theory of stakeholder management in the U.S. began with Freeman(1984), Strategic Management: A Stakeholder Approach, and was succeeded by Alkhafaji(1989), A stakeholder approach to corporate governance: managing in a dynamic environment Clarkson(1998), The Corporation and Its

Due to a change in the mode of the capitalist corporations and a transformation of the relationship between corporations and society from the late 20th to the 21st Century, stakeholder management is being discussed not only in the U.S but also around the world. First of all, this paper will review what the stakeholder approach in the world is. Secondly, this paper will analyze the transformational relationship between corporations and society in the U.S. from the late 20th Century to the 21st. century. Finally, we will discuss the subject and the approach concerning stakeholder management.

II

This paper defines stakeholders as groups that have direct links to the survival interests of a corporate organization. Without the support of these groups the corporation would not be able to survive. Corporations do business while having relationships (stakes) with individual shareholders, institutional investors and financial institutions concerning the fund rising, with laborers and employees concerning the development, production and marketing of products, with customers and consumers concerning sales and consumptions, with local communities and the environment concerning the location of the firms and with the local government and the central government concerning the political environment.

A corporation is defined as a nexus of stakeholders. These stakeholders consist of voluntary and involuntary stakeholders. The interests of stakeholders are not only different, but also can oppose each other. For example, shareholders are opposite to employees as well as shareholders are against the environment. The corporate management should manage contradictory and opposite interests among the stakeholders. This paper will
discuss the real life reciprocal, dependent relationships and interactions between business and society and will particularly focus on the relationship between global business and society from the viewpoint of the concept of the global governance presented by The United Nations.
Chapter 3

China’s Socialist Market Economy and the Reconstitution of State-Owned Enterprises

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Introduction

Where is China, a country that has the world’s largest population at 1.3 billion people, and has achieved an explosive annual economic growth rate of 9%, going? What is the basis for the reality perception and outlook in a country that still promotes its economic system as “socialistic”, and yet has permitted the re-emergence of private enterprise and courted copious amounts of foreign capital from all over the world on the one hand, and on the other, has through the elimination of redundant enterprises, transformed thousands of state-owned enterprises into joint-stock companies, and liquidated and sold off tens of thousands more? Even while moving towards a market economy, is the “Socialist Market Economy” from 1992, which emphasizes “public ownership playing a dominant role” within the market, ultimately nothing more than a pretense at preserving the political power of the communist party? Or is it orientated towards a conceptually completely different economic system that is neither traditional socialism nor capitalism? Have China’s state-owned enterprises declined to the point that they are causing an erosion of “socialism” as it is commonly suggested?

The theme of this chapter is to determine, through analysis of the reconstitution of state-owned enterprises, which are at the heart of public ownership enterprises, these fundamental issues dealing with China’s structural policy and future outlook.

In this chapter, I would like to first investigate, from a multidimensional perspective, the actual influence of state-owned enterprises, which are pointed out as being in decline,
to clarify any misconceptions and to identify the real nature of these enterprises. In addition, I will investigate the approach that China has taken with regards to the reconstitution of state-owned enterprises after 1992. And, I will clarify how the transformation into joint-stock companies of state-owned enterprises after 1993 and the “Strategic Adjustment and Reorganization of State-owned Economy” after 1999 has proceeded to develop, and what it all means. Then, I will show that the “Socialist Market Economy” that China is attempting to realize, through the reconstitution of state-owned enterprises, is neither the traditional socialistic economy we know nor the capitalistic economy of Japanese, Europe and America, and that even while allowing private enterprise to operate in the market and has proven to be ingenious in securing foreign capital, it is a unique market economic system that has adapted to the market economy with reconstituted and strengthened state-owned enterprises (“New State-owned Enterprise”) controlling “strategic points (commanding height)” of the national economy.

I Misconceptions and Realities of State-owned Enterprises in Decline

It is said that the decline of China’s state-owned enterprises is progressing in recent years. The most compelling evidence of this is given as a decrease in the ratio of state-owned enterprises and an increase in the ratio of private enterprises and foreign enterprises in the Gross Industrial Output Value. Taken together with the transformation into joint-stock companies and the elimination of redundant state-owned enterprises, China’s ultimate transition to capitalism is debated with some expectation.

There is little doubt that the ratio of state-owned enterprises in the Gross Industrial Output Value is decreasing. Since the system of measuring statistics was changed in 1997, it is difficult to draw accurate comparisons between before and after 1997. However, the ratio of state-owned enterprises in the Gross Industrial Output Value decreased from 55.6% in 1993 to 37.5% in 2003 (including state-controlled joint-stock companies).

However, the decline in the ratio of state-owned enterprises in the Gross Industrial
Output Value belies the reality of control that China’s state-owned enterprises wield. Evidence of this is provided below.

(1) Although it can be said that the Gross Industrial Output Value of state owned enterprises is, as a ratio of the whole, contracting, the absolute value exhibits an increasing trend. The Gross Industry Output Value of state-owned enterprise increased from 2.21 trillion RMB in 1993 to 6.6 trillion RMB in 2004, and actual growth rate, excluding increases in commodity prices during this period, is approximately 7.2%. These gains were achieved by a reduction of nearly half the number of state-owned enterprises and employees indicating a rapid improvement in productivity. The profit rate from sales that were hovering at a level of 1.5-1.6% from 1996 through 1998 rebounded after 2000 to a 5.4-6.6% level-a level that is comparative to non state-owned enterprises.

(2) The Gross Industrial Output Value index is defective in the sense that it under values the scale of economic activity of state-owned enterprises. Employing other indices shows that the dominance of state-owned enterprises is still considerable. The Gross Industrial Output Value index determines the expansion of production capacity of specific enterprises by measuring the value of end products. And, from the fact that intermediate materials are also included in this index, the economic activities of state-owned enterprises engaged in start-to-finish production and enterprises that are part of the upstream-industry are under-estimated. When measuring the ratio of state-owned enterprises by employing the Value-added of Industry, which removes redundant values from calculations, the result for 2003 produces a value of 44.8%, which is 7 percentage points greater than the Gross Industrial Output Value. Further, at the end of 2003, state-owned enterprises accounted for 56% of total assets, 64% of fixed assets, and 53% of capital stocks.

(3) When taking into account the element of size of enterprises, the latent power of control of state-owned enterprise becomes clearer. 60% of the Value-added of Industry for state-owned enterprises is attributed to production by large enterprise. However, for non state-owned enterprises, 84% is attributed to the production of medium and small enterprises. From a value-added of industry perspective, large enterprises are the impetus
for future economic development, and 75% of large industries are state-owned enterprises. On the other hand, 72% of medium and small enterprises are non state-owned. The average Value-added of Industry for a single company is 9.0 trillion RMB for large state-owned enterprises, 5.2 trillion RMB for large non state-owned enterprises, 0.2 trillion RMB for a medium and small state-owned enterprises, and 0.1 trillion RMB for a medium and small non state-owned enterprises. The difference is evident. This indicates that non state-owned enterprises making up 57.6% of the Value-added of Industry are basically an assorted group of medium and small enterprises that have not had the growth to counter the influence of state-owned enterprises.

(4) When the element of industry is factored in, the latent power of control of state-owned enterprises becomes more evident. State-owned enterprises make up 80-99% of the ratio in electricity, steam, petroleum, coal and tobacco etc in the infrastructure industries, energy industries and the high tax luxury goods industries. In addition, even in heavy industries such as transportation equipment (automobiles, ship building, railcar and aircraft manufacturing etc) and iron and steel manufacturing, state-owned enterprises make up 64-66% of the ratio. And, even in industries where a predominant position has not been achieved in the entire industry such as chemical, general purpose machinery, pharmaceutical product, special purpose machinery, non metallic and beverage industries etc, large enterprises make up 70-90% of the ratio. In the electronic communication equipment, electrical appliance, textiles, food from agricultural products, metal processing and apparel industries, at both the industrial level and large enterprise level, non state-owned enterprises occupy a position of predominance. And, although growth for large enterprises in electronic communication equipment, electrical appliance and textiles is especially noticeable, these three industries target an expansion of foreign capital through export manufacture goods, and therefore do not always move in tandem with the domestic economy.

In other words, China's state-owned enterprises, against a backdrop of appearing to be in decline on the surface, are becoming efficient and, in an absolute sense, are
expanding. In the energy and heavy industries, and in large businesses in every industry, state-owned enterprises monopolize “strategic points” of the nation economy, and still exhibit latent power of control.

II Reconstitution of State-owned Enterprises

As can be seen from above, the preservation and expansion of this latent power of control has, since the transition to a market economy in 1992, been implemented through the reconstitution of state-owned enterprises. And, this reconstitution, which is slated to run through 2010, is currently in progress. This reconstitution comprises the transformation into joint-stock companies of state-owned enterprises initiated in 1993, and based on this, the “Strategic Adjustment and Reorganization of State-owned Economy” initiated in 1999. How is it that the transformation into joint-stock companies (the dismantling of state-owned enterprises that can be thought of as reconstitution), the elimination of redundant enterprises, in addition to the distribution of state-owned shares, can be related to the preservation and expansion of the latent power of control of state-owned enterprises? The key to unraveling the mystery of the “Socialist Market Economy” is hidden here.

1 The Transformation into Joint-Stock Companies of State-owned Enterprises

The transformation into joint-stock companies of state-owned enterprises became the principle direction for reforming state-owned enterprises in 1993, the year following transition to a market economy. The majority of these enterprises were reorganized state-owned enterprises with the number listing on the stock exchange reaching 1377 by the end of 2003. Well-known state-owned enterprises listed on the stock exchange en mass, and it can be thought of as basically the transformation into joint-stock companies coming a full revolution.

Generally, when speaking of the transformation into joint-stock companies of state-owned enterprises, the improvement of inefficient management through a change in
ownership structure comes to mind. In addition to reorganizing state-owned enterprises that were operating in red into publicly traded entities, the government gradually disposed of shares it owned in the market. It is assumed that the value of these reforms is an improvement in management efficiency resulting from privatizing state-owned enterprises. General studies on Chinese economy are typically based on this way of thinking, and expounds the transformation into joint-stock companies of state-owned enterprises. However, one has to abandon this type of conventional wisdom as concerns China. This is because the type of transformation into joint-stock companies of state-owned enterprises that occurs in China is, judging from precedent while disregarding nominal cases (the pre-requisite is actual government control of stock), the development of the means to procure business expansion capital. This is the reason that laborer and management of state-owned enterprises welcome the transformation into joint-stock companies in China. Since capital procurement is the objective, state-owned enterprises in the red were excluded from the start. Enterprises transformed into joint-stock companies generally are blue-chip state-owned enterprises and the internal assets of key state-owned enterprises. From the fact that enterprises transformed into joint-stock companies are the superior assets of key enterprises and blue-chip enterprises, a premium is added to new stocks issued during increases in capital. For this reason, compared to the size of procured funding, the voting rights of general shareholders are limited. Moreover, since the large majority of general shareholders are small shareholders, the government’s position as the majority shareholder basically remains unchanged as a result of capital increases. The government does not withdraw from enterprise ownership as a result of transformation into joint-stock companies. Similar to the transformation into joint-stock of capitalistic enterprises, socially ideal money coalesces around the capital of the founder (the government or founding state-owned enterprise). Within the act of emphasizing the "leading role of corporate public ownership” lies the real motive of China in the reorganization of state-owned enterprises into publicly-traded corporations.

Wuhan Iron & Steel Company Limited, transformed into a joint-stock company in
China’s Socialist Market Economy and the Reconstitution of State-Owned Enterprises

1997, provides the quintessential example. Wuhan Iron & Steel (Group) corporation (the originator) selected 2 plants producing high quality steel from amongst its numerous plants and established a publicly-traded company exchanging physical assets to acquire 1.77 billion shares of Wuhan Iron & Steel Company Limited stock at 1 RMB nominal value. Then in July 1999, it implemented its first round of capitalization raising an amount equal to 77% of Wuhan Iron & Steel Company Limited pre-capitalization capital stock, or 1.376 billion RMB. However, since 1 share had a new issue premium value of 4.3 RMB, the new issue was limited to 320 million shares resulting in an increase of capitalization of only 18%. Wuhan Iron & Steel (Group) corporation’s decrease in ownership was, regardless of the amount of capital procured, marginal at 84.69%, and holding an overwhelmingly percentage of shares, still continues to control Wuhan Iron & Steel Company Limited management.

The reality of this type of transformation into joint-stock company is not un-common in China. For this reason, when state-owned enterprises are transformed into joint-stock companies, the paradoxical phenomenon whereby the influence of the government on the national economy is to the contrary strengthened through expansion by an increase in capitalization, is flourishing in China. When aggregating identical cases of capital procurement (excluding convertible bonds and foreign registered state-owned firms) that occurred between 1992 and 2004, 528 large state-owned enterprises (only where the attribute of controlling shareholder was determined) issued 135.2 billion various types of shares (excluding stock gratis) to procure 526.2 billion RMB in capital. This accounts for the equivalent of 46% of the capital procurement of all listed companies. From the fact that the Value-added of Industry of large state-owned enterprises is 12% of GDP, it is evident that the publicly-traded corporation system and the stock market are functioning as a vehicle for the procurement of capital for large state-owned enterprises. China’s state-owned enterprises are, through the self-denial of reorganization that is transformation into joint-stock companies, preserving government supremacy while expanding.
2 Strategic Adjustment and Reorganization of the State-owned Economy

On the other hand, the “Strategic Adjustment and Reorganization of the State-owned Economy” reform is slated to run from 1999 through 2010. This restructuring tackles issues that the Chinese government had been cautious about such as the elimination of redundant enterprises, and the restructuring of surplus employees. And, generally, for this reason, it creates the illusion of dismantling state-owned enterprises and of propelling China to the final stages transition to capitalism. However, the reality is nothing more than the concentration of state-owned capital at “strategic points”, and market management of state-owned shares as a medium of enhancement for effective control.

1) The Consolidation into “Strategic Points” of State-owned Capital

The concentration of state-owned capital at “strategic points” is central to “Strategic Adjustment and Reorganization of the State-owned Economy,” and was initiated in earnest starting in 1999. In China, during the period from 1999 to 2003, 27,021 redundant state-owned enterprises were, generally based on this policy, eliminated. The basis for this is the thinking that in the national economy, key industries and even simply the control of key enterprises, through transactional relationships, can affect the national economy. At the same time, there is the current perception that as a result of the transition to a market economy and the opening of the economy to foreign investment, private and foreign capital increased, with state funds gradually becoming relative. There is also the current perception that as a result of limited state funds being restricted to unessential sectors of the national economy, supplemental capital investment in key industries and key enterprises was limited. Therefore, state-owned capital that was historically allocated to unessential sectors of the national economy was recovered through sales, liquidations and mergers, and then by concentrating this at “strategic points” such as key industries and key enterprises that dominate the national economy, the idea was to intensify effective control of the national economy by the government.

The positioning of these “strategic points” in the national economy were determined
by “critical industries such as industries related to national security, industries constituting a natural monopoly, industries providing public goods and services, and mainstay industries and high-tech industries” (It was decided at the Fourth Plenary Session of the 15th National Congress of the Communist Party of China in 1999). During the development of the “Outline of the Program of Industrial Structural Adjustment in the 10th Five-Year Plan” in November 2001, industries and enterprises were specifically identified as follows: 1. “Core sectors of National Defense and military industries“ (government assumes absolute control), 2. Key enterprises supplying “critical public goods and services, and sectors of natural monopoly” such as the electricity, steam, water services, coal gas, timber, oil, natural gas, and rare earth element industries; and key enterprises with “sectors that embody general national economic strength” such as the petrochemical, automobile, information, equipment and high-tech industries (state capital occupies a controlling position), and 3. “Key high-tech industries and core sectors” (which the government controls through project funding for basic research and applied research) such as information technology, biotechnology, new exotic material technology and cutting edge manufacturing technology are examples. Other industries and enterprises were broken down into “Competitive Fields,” and by increasing the liquidity of state-owned capital, attempted to sustain and increase state-owned capital. Small and medium state-owned enterprises in the “Competitive Fields” were liberalized and revitalized through “re-organizations, alliances, mergers, leasing, contract responsibility systems and Share-holding Cooperative Enterprises etc” (in other words, the elimination of redundant enterprises).

The concentration of state-owned capital at “strategic points” is already starting to be reflected in economic statistics. From 1999 through 2003, the number of state-owned industries and enterprises decreased by approximately half from 61,000 to 34,000, although, in contrast, capital stock increased 29%, equity increased 26%, and the Value-added of Industry increased 55%. This indicates that the concentration of state-owned capital at “strategic points” is not leading to a unilateral withdrawal of
state-owned capital, but rather an internal reconstitution of state-owned capital. The increase of equity, capital stock and Value-added of Industry in industries such as electricity, steam, oil, coal, transportation equipment (automobiles, ship building, railcar and aircraft manufacturing etc), chemical, non metallic, water utilities, pharmaceutical products, and special purpose machinery etc, is phenomenal both in terms of value and rate (capital stock increased from 14.8 billion to 160 billion RMB, rate increased from 29-81%). The increase in value for steel and electronic communication equipment also was large (same at 13.2 billion to 33.6 billion RMB). These are basically designated as “strategic point” industries. On the other hand, decreases in terms of value and rate were also large for textiles, synthetic textiles, and food from agricultural products (same, 9-12.6 billion RMB, or 20-40% decrease) In addition, apparel, leather, fur and feather products exhibited a large decrease percentage wise (same, 33-52% decrease). These industries are classified as “Competitive Fields” industries.

It could be said that the concentration of state-owned capital at “strategic points” in the economy is nothing less than an enhancement of government control via a “process of selection and concentration.”

2) Market Management of State-owned Shares

In taking the bold step of trading state-owned shares, share that secure public ownership of the factors of production, in the equities market, the “market management of state-owned shares” 1.regulated the distribution of state-owned capital in the capital markets, and 2. aimed to sustain and increase state-owned capital. From the fact that this is in conjunction with the sale of state-owned shares, it is confused with the move towards privatization. However, it is assumed that proceeds from sales of shares are, basically, re-invested. In China the assumption was, from the beginning, that proceeds from the sales of shares would not be used to cover budget deficits. It would be appropriate to conclude that, as a result of this institutional framework, the aim is the dramatic increase of state-owned capital through reinvestment of founders’ profits. This is different to the privatization seen
in other countries.

The “State-owned Assets Supervision and Administration Commission,” the management entity for state-owned shares, was established in 2003. In addition to the “State-owned Assets Supervision and Administration Commission of the State Council” that administers and manages state-owned shares at the central government level, similar bodies were established at the local government level by each local government to administer and manage state-owned shares.

On the other hand, regarding the management of state-owned shares, distribution restrictions that had applied, and the procedure to lift these restrictions were, under the banner of “share merger reform,” initiated in 2005 spring. In order to appease general shareholders that feared the distribution of state-owned shares would depress stock prices, the unprecedented formula of offering “compensation” to general shareholders, such as a partial transfer of state-owned shares and cash payments while simultaneously requiring agreement at shareholders’ meetings, was adopted. 245 enterprises had, by the middle of November 2005, completed this process.

The preconditions for the “market management of state-owned shares”—the lifting of distribution restrictions—are right now at the stage of being systematically implemented. It is, therefore, not possible to statistically measure the effects of the market management of state-owned shares. However, it is expected that the effects will be far reaching.

Let’s return to the Wuhan Iron & Steel Company Limited example. After the first round of capitalization in July 1999, the company repeated paid-in capital increases and free capital increases (stock gratis), and received main iron and steel manufacturing equipment from its controlling shareholder Wuhan Iron & Steel (Group) corporation that allowed it to grow into an iron and steel works capable of producing 1038.49 tons (2005) of raw steel. Wuhan Iron & Steel Company Limited implemented the “share merger reform” in 2005 November, issuing 7.838 billion shares with the equivalent of 75.8%, or 5.942 billion shares, being state-owned shares held by Wuhan Iron & Steel (Group) corporation. Since 474 million shares of this amount were state-owned shares that, through
the “share merger reform” scheme, were unrequited transfers intended as “compensation” to general shareholders, the amount of state-owned shares held by Wuhan Iron & Steel (Group) corporation after the restructuring was 5.468 billion shares. Additionally, Wuhan Iron & Steel (Group) corporation, as a form of “compensation” to general shareholders undertook a voluntary ban on stock sales for a period of 2 years, and after that, until 2010, agreed to a limitation on volume of stock sales and a limitation on the price of stock sales (minimum of 3.6 RMB). Under these conditions, if one were to estimate the revenue from the sale of state-owned shares through 2010 with the precondition of Wuhan Iron & Steel (Group) Corporation as the majority shareholder, then the sale of 1.549 billion shares is a possibility, which with a value of 3.6 RMB, translates into revenue of 5.245 billion RMB. Since Wuhan Iron & Steel (Group) Corporation holds state-owned shares on behalf of the State-owned Assets Supervision and Administration Commission, revenue from sales becomes the revenue of Wuhan Iron & Steel (Group) Corporation. And, at this point, Wuhan Iron & Steel (Group) Corporation is the controlling shareholder of a steel plant producing 10,000,000 tons of raw steel, and at the same time has acquired 5.245 billion RMB in capital. If this sales revenue is reinvested by the founder at the same price (3.6 RMB) again raising capital from general shareholders, even with the precondition of simple majority shareholder, the founder would be able to procure 18.882 billion RMB in capital. Bearing in mind the fact that Wuhan Iron & Steel Company Limited has equity of 20.271 billion RMB including retained earnings; it is possible to establish one more steel plant on the scale of Wuhan Iron & Steel Company Limited. Simply put, Wuhan Iron & Steel (Group) Corporation, as a result of the lifting of distribution restrictions on state-owned shares, has maintained its simple majority shareholding status, and increased the number of steel plants (that it owns) producing 10,000,000 tons of raw steel from 1 plant to 2 plants.

This effect can basically be attributed not only to Wuhan Iron & Steel (Group) Corporation, but, also to the State-owned Assets Supervision and Administration Commission that owned corporations posting profits and state-owned enterprises.
Obviously, stock price trends need to be taken into consideration. This is not only limited to the precondition of being a simple majority shareholder. If the sale of shares proceeded up to the point where the percentage of ownership still allowed for effective control, the effect could possibly be even larger. Capital received from sales proceeds are invested in the same industry and also in other industries. This can be thought of as employing securities investment for the unmitigated motive of capital gains. Regardless, by being able to benefit from this effect, it can be thought of as providing a reason for the sale of state-owned shares while the Chinese government is promoting a “market economy structure anchored by public ownership” even to the point of providing “compensation” to general shareholders.

Conclusion

As has been seen in this chapter, China’s state-owned enterprises are, while gradually decreasing their presence in the national economy, maintaining their latent power of control. And, steady progress on reconstitution of state-owned enterprises has been made as a result of the shift in the mind-set towards public ownership, and this is, by attracting capital from society, re-enforcing the concept of public ownership. Moreover, even while withdrawing from certain industries, the government has proceeded to control “strategic points” of the national economy, and indeed, is effectively strengthening control of the national economy. Further, through the lifting of restrictions on the distribution of state-owned shares, the government has sought an opportunity to rapidly increase state-owned capital. In recent years, although the expansion of Chinese enterprises into overseas markets has drawn considerable attention, the fact that most are state-owned enterprises is easy to comprehend if the reconstitution currently underway, as described above, is considered against the backdrop of declining and elimination modality.

China, even while reorganizing thousand of state-owned enterprises into joint-stock companies, and eliminating hundreds of thousands of redundant enterprises through
liquidations and sales, continues to define its economic system as “socialism,” with the reason for emphasizing “public ownership playing a dominant role” in a market economy being based on the current perception and outlook described above. China is attempting to develop a completely different conceptual economic system that is neither a traditional socialistic economic system nor a capitalistic economic system.

However, whether the development of this economic system is a success or not will, in the final analysis, be determined by the continued efficiency of joint-stock companies and capital management abilities of the State-owned Assets Supervision and Administration Commission. This system is a lever through which to control stock prices, and should the efficiency of joint-stock companies decline, stock prices would decline and would also result in the loss of this mechanism.

Furthermore, in the scholastic sense, it is not clear that “Socialist Market Economy” can be said to be socialism. It can be said that China, through the reconstitution of state-owned enterprises, has succeeded in achieving an institutional design to maintained control of public ownership. However, in the process of making state-owned enterprises efficient, and in the process of eliminating redundant state enterprises, countless employees have lost their jobs. The transition to a market economy is also magnifying the divide between wealth and poverty. Regarding these contradictions, the Hu Jintao administration has published the “Harmonious Society” theory. Although compared to the previous administration, this administration exhibits a strong tendency to emphasize social policies; the question of whether through the mix of a superior public ownership system and social policies can be promoted as socialism or not requires further investigation.
Chapter 4

**Transfiguration of the EU society and Societas Europaea (SE), a new corporation form in the EU level**

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**Introduction**

Globalization has exerted a big influence on the society and enterprise of the EU. We would like to emphasize what kind of characteristics European enterprises have in the face of globalization and also to make the differences clear using the corporate model of the Anglo-Saxon type.

Germany is a traction part of the EU economy. In Germany, financing from the bank was dominant after the Second World War but a stock boom occurred in the nineties, the capital market grew suddenly and direct financing increased. The institutional investors of the USA also had a great interest in the capital market in Germany. Now the German enterprise has faced globalization and the influence of the market mechanism of the Anglo-Saxon type is remarkable. This is symbolized by the merger of Chrysler with Daimler or the acquisition of Mannesmann with Vodafone.

But even with an increase of the capital supply with stock, there is a basic difference in the capitalism of the European type and the capitalism of the Anglo-Saxon type. Regarding the capitalism of the German type, the social side is maintained basically. This point is symbolized by the word “social market economy”. Germany has designated social capitalism as a goal unlike the capitalism of the Anglo-Saxon type.

The German word, "sozial" is a word which is difficult to translate into Japanese.
“Social market economy” means the market economy that has responsibility in society and the market economy that considers social welfare. In Germany the social side of the social market economy is realized in the codetermination system.

As for the top management in Germany, this consists of a management board and a supervisory board. On the basis of the codetermination law of 1976 employees’ representatives participate in the supervisory board alongside the capital side representatives. The number of representatives on both sides is the same.

For the employees’ side, it is possible to exert an influence on the decision making of the board of directors and the representatives of the employees’ side also have a monitoring function.

The European Company, Societas Europaea(SE), is a new form of corporation in the EU level

Also, the German codetermination system has a great influence to the labor-management relations in the EU level. The European Company, Societas Europaea(SE), which is a new corporation form in the EU level, can be established after 2004. The involvement of employees in management is realized in an SE. This means that the social side of the market economy is firmly maintained in the European type of capitalism. This shows the differences from the Anglo-Saxon type of capitalism which mostly prefers market mechanisms only.

The conception of Societas Europaea (SE) was proposed in the seventies. The EC commission proposed the first bill of an SE in June 1970.

For enterprises in an EC country, in order to be active in the EC level in the same way as enterprises in ones own country, the structure and fundamental principles of company law of each country must be the same. If the structure and principles of company law differs in each country, the safety of transactions is threatened. For this reason the EC
Transfiguration of the EU society and Societas Europaea (SE), a new corporation form in the EU level commission has proposed various directives for the harmonization of company law of each country. But the company law of each country has deep relations with the economic system of that country, making it quite difficult to harmonize that law with the law of other countries. In addition the interests of each country differ considerably making it difficult to obtain an agreement on the harmonization of company law. It is especially difficult to obtain an agreement when it comes to top management organization (one-tier system or two-tier system) and the codetermination system in the German style.

Enormous labor and political negotiations are needed for the harmonization of company law in each Member State, so other methods have been proposed. The EC commission has proposed that a new corporation form in the EC level separated from the corporation system of each Member State should be made. This proposition was realized in 2001 as the Statute for a European Company. From the first proposition, 30 years was required for the agreement of each Member State.

The merit of an SE is large for enterprises in the EU. With an SE, it is not necessary to establish a subsidiary company in each country on the basis of the domestic company law, just one corporate body is necessary in the EU level. It is also not necessary to establish a board of directors in every country, a unified management in the EU level is possible.

A Company form of an SE is also suitable for a merger which extends beyond the borders. Until now, a complicated legal procedure was required to merge an enterprise from one country with an enterprise from another country. However, if the SE is established by merger, this problem is solved simply.

The SE is suitable for a project which extends over several countries, such as infrastructure for traffic, energy and communication net. Also financial institutions such as bank and insurance companies have a great interest in an SE. Because of the Euro, the single currency in the EU has circulated making the new corporation form SE profitable
for financial institutions, whose activities cross the border.

It is possible to utilize the form of an SE also for Japanese or American enterprises. For example, an SE can be established by combining the subsidiaries of each Member State in the EU, and it is possible to manage uniformly in the EU level. It is not necessary to establish a board of directors in every subsidiary company.

II Establishment forms and the top management organization of an SE

The SE is a European public limited company (PLC) and the capital amount must be at least 120,000 Euro. This capital is divided into stock. The SE is created on registration in any one of the Member States of the European Economic Area. As for an SE, the participating company in each country becomes the promoter of an SE and establishes an SE. There are 4 ways to establish an SE: by merger, as a holding company, as a subsidiary or an SE can also be formed by a PLC transforming into an SE.

The 1st way is the establishment by merger. Two or more public limited companies may merge to form an SE provided at least two of them are governed by a law from different Member States. The merger may be conducted by acquisition or by the formation of a new company.

2nd is the establishment of an SE in the form of a holding company. The holding company is established as an SE and the companies of each country become the subsidiaries of the holding SE. The companies promoting the formation must become majority-owned by the SE.

As for the 3rd, being the opposite of 2nd case, an SE is established as the subsidiary of the companies in each country. Two or more companies may form an SE by subscribing for its shares. The 4th is the case when the company of each country is transformed into an SE provided the PLC has for 2 years had a subsidiary governed by the
Transfiguration of the EU society and Societas Europaea (SE), a new corporation form in the EU level laws of another Member State. The PLC cannot simultaneously transform into an SE and move its registered office to another Member State.

Concerning the top management organization of an SE, there are two different systems for the managing and controlling of SEs. The SE's statutes may require either a one-tier system, a so-called board system which does not have a supervisory organ, or a two-tier system with a supervisory organ, as it is typical in Germany. In a one-tier system, management is undertaken by the "administrative organ". In a two-tier system, management is undertaken by a "management organ" and a separate "supervisory organ" supervises the work of the management organ. An SE may operate under either a one-tier system or a two-tier system of administration, as laid in its statutes. Each is outlined below.

In a one-tier system an administrative organ manages the SE. The administrative organ must meet at least once every three months. A chairman must be appointed from amongst the members. In a one-tier system the functions of supervision and management are integrated into one organ.

In a two tier system a management organ manages the SE and the company is represented by a management organ. It is prohibited for the members of the management organ or the supervisory organ to have additional posts in another organ. No person may be a member of both.

Members of the management organ may be appointed by the supervisory organ. The management organ must report to the supervisory organ at least every 3 months.

**III The involvement of employees in management in an SE**

The involvement of employees in management is enacted by the Council Directive 2001/86/EC of 8 October 2001, supplementing the Statute for a European company with
regards to the involvement of employees. This directive and the Statute are inseparable. And at the same time concerning the involvement of employees a hotly debated argument has been carried out between the Member States for over 30 years. This directive was formed on the basis of the political compromise between the Member States. Concrete contents are as follows:

When the management or administrative organs of the participating companies draw up a plan for the establishment of an SE, they must start negotiations with the representatives of the companies' employees on arrangements for the involvement of employees in the SE. Employee involvement means any mechanism, including information, consultation and participation, through which employees' representatives may exercise an influence on decisions to be taken within an SE.

Employee participation means the influence of the body representative of the employees or the employee's representatives in the affairs of the company by way of: the right to elect or appoint some of the members of the company's administrative organ; or the right to recommend or oppose the appointment of some or all of the members of the company's supervisory or administrative organ.

For the purpose of the negotiation, a special negotiating body representative of the employees will be created. This Special negotiating body is the body established to negotiate with the competent authority of the participating companies regarding the establishment of arrangements for employee involvement in an SE.

If no agreement has been concluded by the deadline, then standard rules are applied. For example in the case of an SE established by transformation, if the rules of a Member State relating to employee participation in the administrative or supervisory body applied to a company transformed into an SE.
IV Conclusion

The realized SE after 2004 is quite different from the original idea in the seventies. But we should appreciate the fact that, from the beginning of the enactment of the statute the involvement of employees was intensively discussed. This means that unlike the Anglo-Saxon type of capitalism the social side of the market economy is firmly maintained also in the EU level.
Chapter 5

Market Economy and Social Protectionism:
Modern Capitalism, Communism, Post-communism and European Integration

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Introduction

An important factor of the present world economy is the expansion and enhancement of market forces. First, the transnational movements of goods, service and capital increase (economic globalization), although recently the barriers to labor mobility have tended to be enhanced in the advanced countries. Second, free trade and capital movement have also increased through the enhancement of regional integration: the EU, NAFTA and ongoing attempts toward the creation of an East Asian Community. Third, the world market itself has expanded due to China’s rising “socialist market economy” and the emerging market of the former communist countries. Fourth, the role of the market has become enhanced by the deregulation and privatization in the advanced countries.

Karl Polanyi described Western political economies of 18th and 19th centuries, on the one hand, from the perspective of the expansion of a “self-regulating market.” He argued, on the other hand, that the concept of self-regulating market was a utopia and that the attempt to achieve it inevitably led to a “social response” aiming at protecting society from the market: “social protectionism.” Polanyi also explained that this dual movement, that is, the expansion of self-regulating market and social protectionism, led to the catastrophic period in the first half of 20th century (Polanyi 1944/1957).

This essay attempts to draw the present relation between a self-regulating market and social protectionism. It first, outlines the evolution and diversity of modern capitalism, and
characterizes the relation between markets and societies in the present capitalism(s). Second, the essay further considers the relationship within communist and post-communist economies. Finally, the essay examines the inter-relationship between economic and social integration in the EU.

I. Modern Capitalism and Social Protectionism

Hobsbawm divides “the short twentieth century” into the following three ages: the age of catastrophe (1914-45), the golden age (1945-73) and the crisis decades (1973-91). (Hobsbawm 1994). Regulation Theory (RT) defines capitalism of the golden age as “Fordism.” And it takes the crisis decades and the present time, on the one hand, as the age of “bifurcation” of capitalism and, on the other hand, as the age of rising “finance-led growth regime” (foremost in the USA.). The regulationists theorize the historical evolution and spatial diversity of capitalism from the perspective of “regulation” of economies by social-economic institutions. The regulation school and Polanyi share the view that capitalisms are the socio-economical architectures. By employing RT while keeping a perspective of the relation between economy and society, this section of the essay examines the evolution (historical change) of capitalism and its (spatial) diversity.

Each mode of regulation, that is, each capitalism is based on a conjunction of the following five institutional forms: the wage-labor nexus; forms of competition; the monetary regime; relational configurations between the state and the economy (forms of state); and the modalities by which the economy is inserted into international relations system (international regime). (See Boyer for further elaboration, Boyer 2005).

Capitalism of the mid-19th century (represented by UK), had “competition” as its “mode of regulation” in which the market mechanism determined the wages (wage-labor nexus) and competition was determinant to the relation between firms (forms of competition). The state was not interventional in the economy (forms of state).

In the age between the two world wars, the economic growth (and growth regime) of
capitalism, especially in the USA changed from an extensive to an intensive pattern. The Ford production system (at firm level of automobile industry) increased the productivity and opened the way to “mass production”, while capitalism in the 1920s was not equipped with the institutions for creating effective demand corresponding with the mass production that resulting in the Great Depression in the 1930s. However, it should be noted that the institutionalization of industrial relations and social security in the New Deal era helped introduce the post-WWII prosperous golden age (Boyer 2005).

The mode of regulation of capitalism in the golden age was Fordism at the level of the national economy in which a special type of institutional setting promoted both “mass production” and “mass consumption.” With regard to the supply side, the Ford production system, defined as Taylorism plus mechanization, permeated many industries in the advanced capitalist countries that led to a rise in productivity of each national economy with “mass production”. In return for acceptance of the simplified work, employees garnered wages indexed to productivity. That wage system was based on the “institutionalized compromise” between capital and labor as the collective bargaining system (wage-labor nexus). The post-WWII Keynesian welfare state (forms of state) also created the condition of the “mass consumption” on the demand side. Moreover, Bretton Woods regime, especially the fixed exchange rate system and less-open economy (international regime), resulted in a relatively stable and domestic demand oriented growth path in the advanced industrial countries (Boyer 2005).

Fordism contributed not only to the high-pace of economic growth but also to social progress as expressed in improvement of people’s living standards. Accordingly, Fordism was not only economically but also a socially successful mode of capitalist regulation, as Yamada argues (Yamada 2004: 220). Using Polanyi’s terminology, the economy was well “embedded” in society in the age of Fordism.

The crisis decades originated from the crisis of Fordism that appeared from the end of 1960s to the beginning of 1970s. First, the laborers impatient with repetitious and simplified work in the Western Europe, held strikes frequently. Second, the mass
production of the similar goods began to be incompatible with differentiating demands of consumers. Third, “wage explosion” resulted in “profit compression” in some Western countries that narrowed the space of compromises between capital and labor. Fourth, the change of international regime, that is, the shift of a fixed to a floating exchange rate system (thus ending the Bretton Woods regime) opened the way to an acceleration of transnational movement of the capital (globalization), which eroded Fordist compromise between capital and labor set inner-borders.

The “national trajectories” of the advanced capitalisms have been more distinct in the age of post-Fordism which was caused by different economic and social responses to the crisis of Fordism as described above, although there had existed a “variety of capitalism” among the advanced countries also in the age of Fordism. Amable’s sophisticated analysis extracts the following five capitalism: market-based capitalism (USA, UK and so forth); Asian capitalism (Japan and South Korea); Continental European capitalism (Germany, France, and so forth); social democratic type of capitalism (Nordic countries); and Mediterranean capitalism (Italy, Spain and so forth). (Amable 2003).

However, it should be emphasized that a “finance-led growth regime” has been created in market-based capitalist countries, especially in the USA and it has influenced other types of capitalism since the 1990s. The finance-led growth regime was a product of globalization and innovation of financial techniques deriving from the “IT revolution”. Transnational movements of capital, namely FDI and portfolio investment across borders, has increased since the end of Bretton Woods system. The transnational portfolio investment has especially increased since the 1990s accompanied by the innovation in financial systems mostly due to the IT revolution. The USA forged ahead other countries in the IT revolution and financial innovation and created a “financial-led growth regime,” which propelled the prosperous 1990s in that country (Yamada 2004).

In contrast with Fordism in which a key-point was wage increase indexed with productivity, a starting point of financial-led growth regime is the increase of the share prices. The higher share prices encourage firms to invest more and households to consume
more. Accordingly, it raises the total demand, which in turn promotes economic growth. In contract with the Fordism in which a key-institution was the “compromise between capital and labor”, an important institution of finance-led growth regime is the device of corporate governance linking the interests of shareholders (especially, large financial groups) and firm managers, as expressed in the stock option system. Under the alliance of financial groups (shareholders) and firm managers, labor’s position has been weakened and destabilized in finance-led growth regime or market-based capitalism. As Amable points out, the finance-led growth regime has not yet reached continental Europe. Although there appears, to some extent, the shift of bank-based financing to direct financing (particularly increasing the role of stock market), institutional compromise of capital and labor still works in continental Europe (Amable 2003). Although legacies of the post-WWII capitalism still remain in Japan (firm-led type, Boyer 2005), some signs of finance-led growth regime appear in that country.

What was the relation between the economy and society in the post-WWII advanced capitalism? As already described, Fordism was a type of “embedded capitalism” in which institutionalized compromise between capital and labor and the welfare state limited expansion of self-regulating market and thus ensuring social protectionism. With regard to post-Fordist age, one could say that social protectionism still survives in some advanced countries, while very weak in other countries. Esping-Andersen traces the path of three types of welfare regime (welfare capitalism) in the post-golden (post-Fordist) age (Esping-Andersen 1996; 1999).

The liberal type of welfare capitalism (Anglo-Saxon countries) adopted a “neo-liberal root” to response to the crisis of Fordism. The neo-conservative administrations in the UK and USA in the 1980s tried to increase the profit share of the capital by weakening trade unions and decreasing the level of wages. Moreover, the New Democrat in the USA and the New labor in the UK have tried to combine a social assistance system with employment policy to raise the labor-participation of the unemployed and poor (embodied in “welfare to work” and “the Third way”). In these
countries, the level of public social expenditure is lower than the other two types of welfare capitalist countries (Esping-Andersen 1996).

The conservative type of welfare capitalism (Continental European countries) adopted a “labor reduction root” to deal with the increasing unemployment, a serious issue of the post-Fordist age. Many continental European countries promoted early retirement of the aged, although they did not develop the effective employment policy for (potential) young workers and women. This resulted in a lower rate of labor participation in the continental European countries, comparison with Anglo-Saxon and Nordic countries. On the other hand, the level of social provisions to the bread winner (middle age male: insiders of labor market) is relatively high in the continental Europe (Esping-Andersen 1996; 1999). However, social policy of the EU and its core countries in continental Europe currently centers employment policy, aiming at increasing labor market participation.

The social democratic type of capitalism adopted the “Scandinavian route”, which maintained the principle of universal welfare provision and enhanced an active labor market policy. For instance, Sweden tried to absorb potential redundancies and encouraged female participation into the labor market by further developing the professional training system and expansion of public services for childcare (Esping-Andersen 1996; 1999). Both Boyer and Amable remark that the Scandinavian countries showed relatively good economic performance, providing a special growth pattern based on IT industry, which is different from a finance-led growth regime. Namely, Scandinavian countries combine the “IT revolution” with research, education and welfare. In short, these countries focused on the development of human capital(Boyer 2005; Amable 2003.)

At present, one can refer to the “varieties of capitalism” and say that social protectionism works well in the Scandinavian countries, while it is very weak in the market-based capitalism or finance-led growth regime. Continental European capitalism and firm-led Japan’s capitalism stand at crossroad in term of the extent self-regulating market are embedded in their society.
II. Communism, Post-Communism and Social Protectionism

The states of the former Soviet Union and Central and East Europe (the East) have taken different paths from developed Western Capitalism in the post-WWII period. Tracing the paths of the East, this section of the essay examines the relation between economy and society in the communism and post-communism.

(1) Communist economic system and society

Kornai defines communism prior to economic reform associated with the names like Tito, Kádár, Gorbachev as the “classical socialism” that mostly corresponds with the concept of Chavance: the “traditional system” of communism (Kornai 1992; Chavance 1993). One-party regime and the dominant position of state ownership were institutional foundations of the traditional system of communism. The state ownership covered almost all economic activities: manufacturing, construction, banking, transportation and trade. In the agricultural sector, the cooperative ownership was dominant. The main coordination mechanism was central planning (or “bureaucratic coordination” in Kornai’s terminology, Kornai 1992) with many directives to state owned firms. The communist party-states gave priority to heavy industry and aimed at extensive growth under the “classical socialism”. The pace of growth communist economies was not behind advanced capitalist economy during the post-WWII “golden age.”

Although classical socialism also adopted “Taylorism” at the level of industrial firms, it could not succeed in bringing out the good cycle of “mass production and mass consumption”. As Kornai clarified, the “soft budget constraint” due to communist paternalism caused the “expansion drive and investment hunger” of state owned firms, which led to the shortages on the supply side (Kornai 1992). Moreover, communism did not set mechanism in order to link wage system to productivity (growth). The communist trade union was not the social partner of employer (party-state) but just a “transmission belt” between the party-state and employee (masses). Thus, communist Taylorism with shortage did not develop into “Fordism” and the “traditional system” faced a slow-down in
economic growth as natural and human resources for additional input exhausted.

Almost all communist countries implemented reform in their economies, to varying degrees, in the 1960s. Apart from Yugoslavia which had already deviated from the path of “classical socialism,” it was Hungary that carried out the most extensive reform after 1968. This country led by Kádár abandoned the directives from state to the firms. And Hungary introduced the “regulated market model” in which the party-state kept the role of decision making to large-scale investment, while state owned firms were given autonomy with respect to the area of current production. Following motions in China toward reform in the end of 1970s, the radicalization of reform toward system change occurred in the former soviet block. “Solidarity,” an independent trade union was established in Poland in the beginning of 1980s, while “Gorbachev reforms” in the Soviet Union started and developed in the second half of 1980s. By 1988, it was likely that reform would erode two institutional foundations of communism, namely the one-party system and the dominant position of the state ownership in Poland and Hungary. At that time, Brus expected an emergence of “market socialism” with a democratic political system, mixed ownership system (state, cooperative and private ownership) and macro economic policy seeking socialist values including equality and full employment (Brus 1989). Although such ”market socialism” would deserve considerations, a system change to capitalism occurred after the years of 1989 and 1991 in the East.

How can one define the relationship between the economy and society in the communist states? One should examine the features of the communist welfare system to answer this. Komorida defines communist welfare system as a “state system for life security based on labor”(Komorida 1998). His definition is similar to that of Esping-Andersen who notes : “[T]he old communist regime was characterized by three basic pillars : full and quasi-obligatory employment ; broad and universalistic social insurance ; and a highly developed, typically company-based, system of services and fringe benefits” (Esping-Andersen 1996 : 9). As Deacon suggests, the communist welfare system had, to some extent, common features with the continental European in which “the benefits
reflected acknowledged status differences between workers” (Deacon et al. 1997: 91). The communist welfare system had common features with the social democratic regime as well because it brought a high degree of decommodification and female participation in the workforce. However, the communist welfare system should be made distinct from ones of advanced capitalisms, as it was not equipped with democratic institutions. As Ferge notes, the communist welfare system “was permeated with the totalitarian logic of the former political system[Communism]” (Ferge 1997a: 301), although it contributed to “the very significant reduction of utmost poverty, and the development of human capital…” (Ferge 1997b: 108).

One could say that in the communist system, the economy with a minimal market was “embedded” in the state, which never represented people (society). But it should not be ignored that the communist state was a comprehensive welfare state by which people were guaranteed employment and their necessities for living (even if only in return for political subjugation).

(2) Change of economic system
The post-communist states have implemented the transformation their respective economic systems over the past 14-16 years. They set similar tasks for a transformation toward capitalism, which were composed of macro-stabilization, liberalization (of price, foreign trade and capital transaction), privatization of state owned firms, the foundation of new private firms with an arrangement of market-compatible financial infrastructure. It was the Bretton Woods institutions (IMF and Word Bank) which strongly influenced the transformation policies of the ex-communist countries in the initial phase of system change. Many economists both within and outside the borders of post-communist countries have been involved with theoretical debates and empirical assessments with regard to the transformation of economic system.

Without going into detail, one could summarize the economic transformation in the post-communist countries as follows:
Capitalism has emerged in the post-communist countries, although it works with relatively better performance in some countries than others. Slovenia and the Visegrad countries (Poland, Hungary, The Czech Republic and Slovakia) forged ahead in the institutional building of a capitalist market economy and Baltic countries (Estonia, Latvia and Lithuania) followed in suit, and they joined the EU in 2004. Other countries lagged behind.

In retrospect, the most determinant element for system change to capitalism was historical one. It was the extent of experience of market economy in the past. The countries with a history of relatively developed capitalism prior to communism (typified by the Czech Republic) and countries with a history relatively advanced economic reform (Slovenia, Hungary and Poland) were able to implement the systemic change to capitalism more easily than other countries (Rosati 2004).

What kind of capitalism has emerged in post-communist countries? It is still too early to give precise answer, but it is possible to refer to “Eastern European’s emerging transnational capitalism” as Bohle and Greskovits note. According to these authors, globalization and specifically the extent and pattern of transnational corporations’ inflow, mostly determined emerging various types of capitalism in post-communist countries (Bohle and Greskovits 2006; Greskovits 2004).

(3) Social consequences of change of the economic system and characteristics of the emerging welfare system
How can one characterize the relationship of the economy to society in post-communist countries during the period of system change? To answer this, one should consider social (societal) costs of transformation, that is, the negative results due to the system change (Szamuely 1996), which have been heavy in all post-communist countries. And the main social costs of transformation included a rise in mortality, mass unemployment, an increase in the economically inactive population, a rise in poverty and an increase of income inequalities. The following description reveals only a few examples of social costs of
transformation in several countries chosen at random.

In addition to inadequate of medical systems, stress brought about by the drastic system change caused a decline in life expectancy in the post-communist region. Especially, life expectancy at birth of males fell drastically in Russia from 64.2 to 58.2 years during transformational depression of 1989-94 (Szamuely 1996: 66).

The change of the economic system also caused unemployment in post-communist countries, and negated a basic component of the communist welfare system, full employment. In the case of Poland, the unemployment rate is still high in 2005, almost 18 percent. Economic transformation drastically increased and deepened poverty in the post-communist countries. For instance, about one third of the total population lived on a per capita household income lower than the subsistence minimum in the middle of the 1990s in Hungary (Andorka 1997: 81). As system change was in motion in post-communist countries, the social structure changed, and it was reflected in the growth of income differentials. In the case of the Czech Republic, the income ratio between the lowest and highest household deciles increased from 2.6 in 1988 to 3.2 in 1996 (Potůček 2001: 86).

In all post-communist countries, the social costs of the system change have been severe.

How has the welfare system (social protectionism) responded to the economic transformation toward capitalism (expansion of self-regulating market)? The remainder of this section examines changes of the welfare system in the post-communist countries, taking examples from three Central European countries: The Czech Republic, Hungary and Poland.

Since 1989, several factors have influenced the transformation of social policy and the welfare system in Central Europe. Among them, important determinants were social costs of transformation as described above; a traditional European welfare system; neoliberalism; advice and commitments of international organizations such as the World Bank and the International Labor Organization (ILO); and legacies of the communist era.

In the post-communist region, social policy of the first stage of the system change had the character of “emergency responses” to social costs as described above (Cichon et
al. 1997: 19). That is, emergency measures were introduced to deal with the social costs of transformation such as mass unemployment, widespread poverty and an overall deterioration of living standards. All countries in the region rapidly introduced unemployment benefits (of social insurance scheme) and social assistance benefits. The unemployment benefit plans were initially generous, although later it became limited in terms of the replacement rate and length of entitlement in the region (see below). In addition, social assistance has been a means-tested benefit for poor people in the region. Social insurance funds for pensions and health care were separated from state budget. And through the retention of the family allowance and childcare leave with partial wages, the principle of universal provisions was maintained in the early stage of the system change in the region.

Thus, by an emergent response to the outcomes of economic transformation, the social security system in Central Europe shifted to the three-tier system prevalent in Western Europe by the mid-1990s (Cichon et al. 1997). The three-tier consists of social insurance plans, universal benefits and social assistance policies. Alongside the creation of the three-tier system, European-style tripartite institutions were also established. Thus, in parallel with the emergent response, the Europeanization of social policy occurred in the region by the mid-1990s. The ILO, whose branch was established in Budapest in 1992, has provided post-communist countries with the technical assistance to set up the European type of industrial relations (for instance, tripartite institution). On the other hand, the EU directed PHARE programs and gave advice on social security policy (Fagin 1999), but its policy advice to post-communist countries did not have a systematic orientation toward “Social Europe” (see below).

Although the impact of neoliberalism was seen in economic policy more than in social policy in the early stages of system change, it also became more visible in social policy around the middle of the 1990s in the post-communist region. The core of the neoliberal social policy inspired by the World Bank was comprised of the following two elements: first, limiting the provision of welfare benefits to the “truly needy,” thus
reducing social expenditure, and second, privatization of the pension system (Deacon 2000). Around the mid-1990s, universal benefits and services such as family allowance and paid childcare leave were converted into means-tested benefits in three countries: Hungary, Poland and the Czech Republic. In Hungary, the length of entitlement of unemployment benefits was gradually reduced from two years to one year in 1993 and then to nine months in 2000. The case of Czech Republic was similar. In this country, unemployment benefits were paid for one year in 1991: 90 percent of salary for the first six months and 60 percent of salary for the next six months. Later, the length of entitlement of benefits was reduced to six months in 1999: only 50 per cent of salary was paid for the first three months and 40 per cent of salary for the next three months (Potůček 2001).

Pension reforms were carried out with a similar paradigm shift in Hungary in 1998 and in Poland in 1999. The reform process was led by each country’s Ministry of Finance, which cooperated with the World Bank. The main concern of the World Bank was to limit the public PAYG scheme to a minimum scale (first pillar), to introduce the mandatory and individually funded, privately managed and non-solidaristic second pillar, and to establish the additional voluntary third pillar as well. Hungary introduced this type of new pension system, composed of three pillars in 1998. The new Polish pension system introduced in 1999 was essentially similar to the Hungarian one. In contrast to the Hungarian and Polish cases, the Czech Republic maintained its public PAYG scheme, although voluntary pension funds were allowed after 1993.

While neoliberalism has become a notable element of post-communist social policy since the mid-1990s, it has not yet permeated deeply into society due to the legacies from communist era. The majority of the population in the region still expects a deep commitment from the state with regard to social protection and has often voted against the governmental parties that pursued neoliberal social policies. This attitude could be considered to be a legacy from the communist era. It is also likely related to a “legacy effect” that public social expenditure as a percentage of GDP in 2001 is higher in the three countries under discussion (20.1 in the Czech Republic; 20.1 in Hungary; and 23.0 in
Poland. OECD 2004, Social Expenditure Data Base) than in the Anglo-Saxon welfare states (14.8 in the USA; 18.0 in Australia; 17.8 in Canada; and 18.5 in New Zealand. OECD 2004, Social Expenditure Database). And the public social expenditure as a percentage of GDP is higher in Slovenia (26.1 in 2000. Vaughan-whitehead 2003 : 117) than in the above three Central European countries. However, one should notice that public social expenditure as a percentage of GDP is lower in each Central European country than (old) EU-15 average, 24 per cent in 2001 (OECD 2004, Social Expenditure Database). It also should be remarked that public social expenditure is lower in the Baltic countries and Southeastern countries than in the Visegrad countries and Slovenia.

Thus, one could conclude that Slovenia and the above three Central European countries have not yet reach to a residualist welfare state. However, one could not deny that post-communist welfare system, more or less, tends to be “subordinated ---the logic of the economy, that is, the market”(Ferge 1997a : 302). Some post-communist countries are already the members of EU. Accordingly, the future of social protectionism of them depend not only on independent countries’ own choices, but also on the EU’s choice: whether they seek a “Social Europe” or aim only to be a winner in global economic competition (See Horibayashi for further elaboration of the Central European welfare system. Horibayashi 2006a).

III. Economic and Social Dimension in the European Integration

This final section of the essay examines the relation of the economic to social dimension in the European integration. The Treaty of Rome, which created the European Economic Community (EEC) as a common market in 1958, was principally a project of market integration of the six founders (EC 6 ) : Belgium, France, Italy, the Netherlands, Luxemburg, and West Germany. Although the treaty envisaged harmonization of living and working conditions of the Community members, it did not define the path of harmonization: the Treaty of Rome provided no legal basis for an explicit project of social
integration (Threlfall 2003). In practice, economic integration became the top priority in the European integration as the customs union and common market were achieved by 1968, which expanded to include three more members: UK, Ireland and Denmark (EC 6 to EC 9) in 1973.

Although economic integration pushed ahead of social integration, European social policy also advanced in the 1970s. The Paris Summit of the EC in 1972 gave more importance to the social aspects of the European integration and from this perspective the Council adopted the Social Action Program in 1974. The second half of 1970s is regarded as the golden age of harmonization of living and working conditions of the members because the Council adopted several directives promoting gender equality, health and safety at work. The formation of funds of the EC was also significant from the aspect of implementation of social objectives. Three structural funds were established until the end of 1970s: the European Social Fund (ESP), the European Agricultural Guidance and Guarantee Fund (EAGGF), and the European Regional Development Fund (ERDF). All funds have included social objectives to reduce the disparities in living standards existing among regions of the member states.

In 1985, the EU adopted the Single European Act that aimed at achieving a single internal European market. Although the Single European Act was essentially a program for further market integration, “Jacques Delors, the European Commission’s President from 1985 saw the idea of a social space as a necessary complement to the completion of the internal market” (Sykes 2005: 208). Accordingly, the Single European Act contained some articles for advancing common European social policies. First, the act introduced qualified majority voting in the Council in the areas of health and safety at work so as to facilitate quicker legislation. (Article 118a). Second, the act stipulated that the Commission would promote a European social dialogue (Article 118b). Third, the act defined regional policy with respect to structural funds to become formal EC policy for promoting economic and social cohesion (Article 130a〜130e). The Cohesion Fund was established in 1993, and it has helped the new member states which joined in the 1980s where the admission of
Greece, Spain and Portugal expanded the EC9 to the EC12 and embarked on “catching-up” with the established members (Coriat 2004).

The Maastricht Summit in 1991 was epoch making in the history of post-war European construction because it set programs not only for the Economic and Monetary Union (EMU) with a single currency but also for the political community with Common Foreign and Security Policy and cooperation of Justice and Home Affairs. The Treaty of European Union (the Maastricht Treaty) came in force in 1993, which led to the foundation of the European Union (EU). The Social Protocol attached to the Maastricht Treaty included a number of advances in the formation of European social policy, although the UK was permitted to opt out. It expanded the area of qualified voting in the Council: working conditions, workers’ consultation, equal opportunities and treatment and integration of those excluded from the labor market in addition to health and safety at work (Taylor Gooby 2004). It also expanded the role of the social dialogue by defining the procedure for the conversion of the social partners’ agreements into directives of the Council. Afterwards, the Councils adopted several directives based on the social partners’ agreement on the EU level: a directive on parental leave (1996); one on part-time work (1997); and one on fixed-term contracts (1999. See Vaughan-Whitehead 2003).

A different tendency from the past began to appear in European social policy from around 1993 when the White Paper on Growth, Competitiveness and Employment was issued. The White paper included a set of priorities such as promoting monetary stability and a more open and decentralized labor market characterized by greater flexibility. It also raised the issue of devising a common European approach to employment for the first time. The Amsterdam Treaty signed in 1997 finally incorporated the full Social Protocol (Article 11) and ended the UK opt-out. It also created a title on employment (Title 8, Article 125 to 130) and defined an “Open Method of Coordination” (OMC) as a tool for employment strategy of the EU. This laid down a soft path toward harmonization in which the EU set benchmarks or indicators to guide national policy outcomes. Since the Amsterdam Summit in 1997, employment policy has been centered among the European social policies. The
first European employment strategy (1998-2002) centered on the four pillars: employability, entrepreneurship, adaptability and equal opportunities.

The Lisbon Summit in 2000 declared that by 2010 the EU should become “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more jobs and better jobs and social cohesion.” According to van der Pijl, the Lisbon agreement reveals a “challenge to United States, in setting the target of competitive economy” (van der Pijl 2006: 35). In terms of employment, the summit set ambitious objectives for total employment to rise from 63 percent to 70 percent.

It is obvious that current European employment policy has placed an emphasis on the supply-side such as employability and adaptability. This approach permeates social assistance, too. The Lisbon Summit in 2000 agreed to adopt OMC in order to eradicate poverty and social exclusion. The Nice Council in 2000 also agreed with the European Social Policy Agenda and set objectives in this area (social inclusion) in which the first priority went to facilitating participation in employment through employability and equal opportunities. As O’Connor notes, the guiding principle of the European Social Policy Agenda “was to strengthen the role of social policy as a productive factor” (O’Connor 2005: 349). Thus current policy emphasizes positive “activation” rather than benefits for the unemployed and the poor (Taylor-Gooby 2004: 12).

One can say that the above tendencies of social policy have had a relation to economic policy that was aimed at creating and maintaining the Economic and Monetary Union (EMU). The Maastricht Treaty set four convergence criteria for participants of the EMU, and among them the following two criteria were the most important: first, the annual inflation rates of member countries must not diverge by more than 1.5 percent from the average of the three best-performing countries; and second, the budgetary deficits must be kept under 3 percent and the national debt under 60 percent of GDP. Following the Maastricht convergence criteria, the Amsterdam Summit agreed on the Stability and Growth Pact (SGP), which has obliged the participants to keep the budget deficit under 3 percent of GDP even after joining the EMU. With respect to monetary union, the euro
began to function as a single currency in accounts among 11 EMU members in 1999. And on January 1 2002, euros were put into circulation in the 12 EMU member countries.

The Maastricht convergence criteria and SGP have limited the deficit financing of state provisions and state welfare spending and have led to a “productive approach” of EU social policy, which has emphasized “activation” and “employability”. On the other hand, the principle of subsidiarity has limited the EU’s ability to commit members to important social policies. The principle of subsidiary means that EC jurisdiction is restricted to areas in which national governments cannot meet policy objectives through their own actions but where the EC intervention can achieve these aims (Taylor-Gooby 2004: 9-10). And this was one reason why the EU adopted an “open method of coordination” (OMC) in the area of employment and social assistance.

From the trajectory of EU integration above noted, one could argue that the social dimension has occupied a lower position than economic considerations. At present, “Economic Europe” outweighs “Social Europe”. The rejection of the Treaty on the European Constitution in France and Netherlands in early summer 2005 was seemingly caused by a deficit of Social Europe alongside a deficit of Democracy and the anxiety of social dumping which is seemingly caused by the accession of Central and Eastern European countries into the EU.

In fact, the Treaty on the European Constitution has ambiguous features, and more importantly, contains many conflicting articles from each other. For example, Article I-3 provides a list of objectives of the EU, including the pursuit of social justice and progress, full employment, social cohesion, solidarity and gender equality indispensable for Social Europe. Yet, Article III-210 (6) suggests that the EU does not commit each member in the area of pay, the rights to form unions or the right to strike and hold lock out. And Article I-3 defines an internal market to be a core purpose of the EU. In addition, Article I-30 states that the primary object of the European Central Bank, whose independence is affirmed, is price stability. Moreover, several articles belonging to Part III of the Treaty on the European Constitution emphasize the principle of open markets with free competition
(See the following works for further elaboration of the European Constitution. Sala 2005; Church and Phinnemore 2006).

Apparently, Social Europe is insufficient within the Treaty on the European Constitution. However, one should not ignore that the Treaty sets a promotion of “social market economy” as an objective of the EU. Taylor-Gooby aptly summarizes the current situation: “[Thus] EU policy-making accepts the Shumpeterian argument that market freedom is essential to economic success, but does allow a social agenda to enter, so long as welfare ends do not conflict with market…. In short European approach to social risks is more Shumpeter than Polanyi, but that may not be the last word” (Taylor-Gooby 2004: 15. See Horibayashi for further elaboration of social dimension of EU integration. Horibayashi 2006b).

**Conclusion**

Dore describes that Polanyi’s idea seemed to be applicable in the golden age of 1950s and 1960s: An economy was embedded in society. However, he argues that liberalisation of economy from social regulation has been enhanced since the 1980s (Dore, 2005). Certainly, the forces of “self-regulating market” have gained momentum in the decades of accelerating globalization and regional integration, and system change of the former communist countries to capitalism. However, various forms of “social protectionism” can also be found in the advanced capitalisms, post-communist countries and the EU integration: surviving social democratic type of capitalism, people’s resistances to neo-liberal social policy in the post-communist countries and the effort of the EU citizen aiming at creating Social Europe.

Social scientists need to continue to explore the formation of a feasible embedded economy under the current conditions based on existing “social protectionism”.
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Market Economy and Social Protectionism

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Chapter 6

Hungarian Firms under Socialism, Transition and the EU Accession

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Introduction

Hungary became formally a member of the EU in 2004. However, the economic route that Hungary had taken up to this point had not been simple. Hungary belonged to the economic bloc of Austria or Germany before WW I or WWII. After emancipation from Germany’s domination it was incorporated into the Soviet Union’s military bloc and lived under the state-socialist economic system from the beginning of the 1950s to the end of the 1980s. Hungary then experienced a systemic transformation from socialism to capitalism since 1989 preparing for its EU accession. Even though it is already substantially incorporated into the EU economic area Hungary is not a member of the EMU yet.

This historical path is useful not only for understanding macro-economic transformation, but also for considering the changes of the features that Hungarian firms and their management have undergone. This micro-economic transformation can be approached by focusing on the following two issues: (1) what characteristics had the state-run firms in Hungary had before the transformation? (2) How, in what degree, and in what field have they changed themselves and been evolving in the process of transformation and the EU accession negotiation?

The aim of this paper is to ascertain the evolutionary aspect of the transformation of Hungarian firms in the long-term from the state-socialism to the end of the transition era. Firstly, it will provide surveys about features of the archetype of socialist firms in general and then the characteristics of Hungarian firms under the former economic regime.
Secondly, it will study new features of Hungarian firms at the end of the 1990s mainly from the viewpoint of the emergence of new actors in a market economy, their typological features, the course of their birth and their features of corporate governance. Thirdly, it will advance analysis about the impact of the EU accession on Hungarian firms in the beginning of the twenty-first century, including a survey on the endogenous or exogenous resurgence and the development of technology and R&D function that had been missing under the former economic system. Finally it will briefly summarize the conclusions.

1. Hungary Firms under the Socialist Economic System

1. Archetype of Socialist Enterprise

State-socialism was established in the Soviet Union in the 1920s-1930s while it was introduced exogenously in East Europe in the 1950s. Since both socialisms were born under the military tension and pressure of and after the two world wars, they were characterized by military and mobilized economic features with the nationalization of factories and enterprises, the prohibition of private initiatives & business as well as private credits, and the establishing of a centrally planned economic system. It would be naive to simply compare the management and corporate features of socialist firms in the era of state-socialism with those of modern enterprises in contemporary capitalism, because socialist firms were embodied by a combination of both (1) any structural and institutional features, except the private ownership and management, of the firms that had been inherited from the era before the socialist revolution and (2) those of the nationalized state-run firms and central planned economic system.

Firstly, this prototype of socialist enterprise was originally not well equipped for a large-scale management organization with R&D and a marketing section. Secondly, it was merely a production unit that took charge of production function, labour process management, and the achievement of the imposed planned-target. Thirdly, it was directed towards establishing a "universal type of company" with efforts to increase the.
inside–sourcing of as many parts and services as possible in the management. The ministries and government agencies tried to promote large-scale-management for the simplification of company structure and management. Fourthly, a state-owned firm used to be not only a part of the political administrative organization, but also a unit that used to supply public, social, life-supporting and welfare services. Fifthly, the top management of a state-owned firm was appointed on the basis of not only the profession of management to some extend, but also the political criterion of a candidate to a greater degree. The result was that the top management used to be prone not to look at the needs, demands and the complaints of final consumers, but would rather negotiate with the supervisory agencies and ministries in order to achieve imposed planned targets.

2. Hungarian Firms under Socialism

The socialist era in Hungary is roughly classified into two periods according to not the ownership characteristic of firms but their organizational structure; (1) in the period immediately after the World War II to the beginning of the 1980s, and (2) in the 1980s.

Western big businesses in the 1950s used to be a covert model for Hungarian firms. This centralized functional organization model was realized up to a point in the beginning of the 1980s. Attention should be paid to the fact that a commodity market was introduced by the starting of a new economy mechanism in 1968, when the physical-termed centrally planned targets were abolished in Hungary. This decentralization, however, was in parallel with the process of magnification and the centralization of firms. It was in the second period, namely in the 1980s, that “structural modernization” was carried out in order to modify the over-centralization. There were two directions in this modification. One direction was to introduce the smaller-scale organization with more flexible management, like industrial production in a smaller unit of agricultural cooperatives or enterprise business work partnerships (VGMs). The other was to reorganize major enterprises in a matrix structure by function and product line, and also to establish subsidiaries within the firms and partly involved a division system (especially in the second half of 1980s).
Neither became successful (Mikos Dobak es Erno Tari, 2000, pp.324-354.).

These structural and organizational changes did not succeed in fundamentally transforming the original socialist features of Hungarian firms to such a degree as was expected in the second era (Balaton Karoly, 2005). It is, however, important to pay attention to the fact that the economic reforms in 1968 and the 1980s encouraged private initiatives in economic life, expanding substantial discretionary acts both within firms and at the level of the national economy. The stagnation of the state-economy had spontaneously and partially paved the way to latent private ownership initiatives and market economy-elements, i.e., a hybrid economic system in Hungary, within the framework of which workers developed their own initiatives to undergo efficient operations in the worksites. It could be called the "everyday power" of the workers (Tanaka, Hiroshi, 2005, p.235).

The fundamental reform of the economic system had been constricted by a combination of the political and ideological monopoly of the Communist Party, predominance of the state-ownership and bureaucratic decision-making. But finally the difficulties of people’s daily lives and democratization had ended up in dismantling the political and ideological monopolies in peace. This dismantling led to sequences of systemic transformations in Eastern Europe in 1989.

II. Hungarian Firms in the EU Accession

1. Divergence of East European Transition Economies into Three Groups

Transition economies in Eastern Europe (See Yoji Koyama 1999, Yoshiaki Nishimura 2004, Hiroshi Tanaka 2005, and Masahiro Taguchi 2005) have been confronted with macroeconomic stabilization and sustainable growth, institutionalization of a market economy, raising actors and promoters of a market economy, entering into the worldwide international division of labour with supporting competitive industry-sectors, and preparation for the EU membership. According to the degree of realization of these tasks,
these economies are classified into the three groups; (1) Central European and Baltic economies, (2) Romania and Bulgaria, (3) the other South-East European economies. The Hungarian firms, which will be discussed below, give us a representative example that functions in an economy belonging to the first group with the best success in transition to a market economy.

2. Systemic Transformation and Hungarian Firms

Our rough observation of the systemic changes of Hungarian firms shows that there have been three phases in the transformation of firms from 1989 till now (Balaton Karoly, 2005, pp.158-160).

The first phase of transformation was a period from the beginning of the transition to the end of the recession (1996), when the firms had not only groped for changes of their ownership and governance, but also tried to extricate themselves from the transformation recession. The transformation of ownerships was given the most strategic importance in this period. Furthermore, there were pursuits for the decomposition of firm organization structure to smaller units, the formation of a new type of corporate governance, and the reorganization of firm structure into more flexible ones that could be more adaptable to changing environments.

There were shifts in the firms' strategic behavior patterns from the dependence of and adaptation to the state-economic system to giving a top priority to competitive advantage, focusing on higher quality, consumer-centered orientation, technology and efficient production (Antal-Mokos Zoltan et al.2002, pp, 89-109.). It could be pointed out that it was at the end of this first phase that the transition period in a narrow sense for the Hungarian firms was over.

The second phase was a period of 1997-2002, when the Hungarian economy began to enter a growth orbit. The firm's strategy in this phase lay in the starting of innovation and diversification, orientation to international integration, searching for new forms of inter-firm cooperation and the working out of excellent corporate development plans and
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their differentiation. However, the last period (after 2002) of the second phrase corresponds to, under the actual influences of the EU accession, the period when Hungarian firms started to prepare for a renewal of their technology and organization in order to fulfill EU criteria. This could imply that the third phrase of transformation started in 2002.

3. Privatization of Firms and Birth of Various Market Actors

It goes without saying that one of the most important policy instruments that caused the above fundamental corporate changes was not only the abolition of the planned economic system and the liberalization of the state regulations, but also privatization itself. Although the methods of privatization varied from one transition economy to another, the following two approaches of privatization or combinations of these two were dominant. The first approach was the direct sale of the state properties to buyers whilst the other was the distributing of vouchers or coupons to the population (mass privatization). In Hungary, market-based privatization (direct sale approach) was adopted dominantly with preferential distribution to managers and employees and a distribution of compensation coupons to former owners. This process was carried out politically.

Tens of thousands of actors in the market economy emerged consequently as follows: Firstly, the majority of the state-owned enterprises, whose number was less than 2400 in the pre-transition period, disappeared (only 270 firms remained in 2003). In turn about 200,000 corporations with legal entity were established. Secondly, less than 1,200,000 unincorporated economic organizations grew gregariously. The corporations with legal entity consisted overwhelmingly of limited liability companies. Thirdly, the number of foreign-affiliated firms reached about 25,000, among which full foreign-owned firms amounted to 17,000. The predominance of foreign capital is overwhelming in the Hungarian economy.

4. Four Types of Firms on the Evolutionary Way to Capitalism
Let us observe how countless actors have been transfigured in emerging market economies. J. Vecsenyi, bearing the second half of the 1990s in mind, tried to classify East European firms, especially Hungarian firms into four types according to the volume of management experiences on the horizontal axis and the degree of preparation for entrepreneurship and transformation on the vertical axis (Vecsenyi Janos, 1999). The characteristic of these four types can be seen as follows:

The first is the small firm and family-run firm, called the “Ant” type. The establishment of this type was permitted in 1982. Since the beginning of the transformation they grew gregariously in number. They are characterized by their very small-scale of business.

The second is called the “gazelle” type with the same place and period of origin as the “ant” type. This type of firm represents rapidly growing companies mushrooming after the start of the transition. They became typical beneficiaries of an emerging market economy. This type is regarded as transitional and is expected to either to become a next-mentioned “tiger” type or to disappear in the future.

The third is called the “dinosaur” type. This kind of firm inherits features of state-owned enterprises and survives by the help of governmental subsidies and orders in a non-competitive manner. These firms are apt to laggardly adjust themselves to changing market environments and are destined to disappear or to be sold off to multinationals.

The fourth is called the “Tiger” type and develops spectacularly. The majority of these firms were born as a result of the privatization of state-owned enterprises and were sold off to multinationals and foreign investors (ex. uniliver Hungary and Zwack Unicum).

Then how can we understand the transformation process of these four types? Let us verify this process from the two aspects of (a) evolution to capitalism and (b) corporate governance.

The first aspect (a) teaches us a fact that foreign capitals dominate in Hungarian firms, which was already shown in the above II-1. The question would arise whether there was another way, even if the transition was realized in a very compressed time, a way to
develop from large numbers of the “ant” type of firm to the “gazelle” type extending to the “tiger” type or not. Hungarian enterprises are incorporated in the global or regional networks of multinationals, indicating that Hungary is following a way to neither “capitalism from below”, nor “capitalism from the top” (Mihaly Laki, 2004, pp.103-126.), but rather a “lateral way of capitalism” (Hiroshi Tanaka, 2005).

5. Corporate Governance in Hungary

Next let us move to the arguments of (b) on the corporate governance in Hungary. As is mentioned in I-2, Hungarian firms in the pre-transition period had already loosened the socialist type of corporate governance as a management principle of the state-owned firm. The corporate governance had changed into the discrete or split state among the administration, firm's management and skilled workers. Then, how has corporate governance (CG) in Hungary been established during the transition in the 1990s?

Hungary has introduced many legal regulations and the code of CG from the EU countries. The company law in Hungary, like other East European countries, is basically similar to the German type. The CG consists of the two-layered system of a supervisory board, which takes charge of strategic decision-makings and the auditing of enterprise, and a board of directors, which corresponds to a body to perform operations.

The result of an investigation conducted in 1999 could provide us the following observation about the functions and features of the board of directors. The board of directors in Hungarian firms consists of a relatively small number of directors (five persons on average) including 1-2 independent directors. The board of directors was held only less than 6 times through the year, and was still immature in the sense that the division of labour among the directors based on their expertise and special capabilities was still forming and developing. Most of the boards of directors have not enacted the principles and rules of their activities. What the board was engaged in was neither to formulate the firm's missions and the fundamental aims, nor to formulate the medium-term goals and to conduct the day-by-day business operations, but rather to formulate and
modify their corporate strategy as a long-term purpose.

It was also involved in the decision-making of directors' salaries and remuneration. Contrary to the legal regulations, the owner has participated in management and has authorized a chief executive officer (CEO) to appoint the board members and the other administrators (Bartok Istvan, 2002, pp, 110-136).

These features confirm to us that there are gaps between the ex facies and the actual functions of the CG law as well as a predominance of controlling shares and ownership. In addition, although the board of directors plays the core role in the CG, the role is still immature in the real business functioning.

Furthermore, such features have made many aspects of CG in Hungary formal and procedural, for a low ratio of the public organization's share, a weakness of protection of shareholders' rights, a low degree of stakeholder’s role, a formality of supervisory board, a weakness of accusation culture, a low degree of external financing and an underdevelopment of financial intermediations. In contrast, the EU accession and the open economic system to foreign capitals have held their potentials to fulfilling the CG (Eva Ozsvárd, 2005).

III. Features of Hungarian Firms at the Period of the EU Accession

1. Influences of the EU Accession on the Hungarian Firms

Let us consider the influences of the EU accession on the Hungarian firms, which the result of the newest investigation conducted in 2004 shows (Chikan Attila et al.2004). According to this examination, Hungarian companies have felt that uncertainties are increasing in comparison with the 1990s in every respect such as the domestic market, the capital financial market, internal and external suppliers, technological development, legal regulation, social change, international political change and the preparation for the EU accession.

Among others, the uncertainty accompanied by the preparation for the EU accession
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is extraordinarily increasing. Hungarian firms have changed their corporate strategies in the environment of increasing uncertainty, switching remarkably from the stability-oriented defensive strategy to growth-oriented offensive strategy as compared with the period before 2002 especially.

It seems that strengthening inter-firm networks is thought to be a means of getting competitive advantages now. One of the features of firms in transition was that the network system between state-owned firms formed in the socialist era was inevitably changed or disassembled in the process of privatization, resulting in the lacking of and the inadequate establishment of long-term relations and trust among newly emerged firms. The informal networks built before the transition has transformed and developed into such formal forms as the conclusion of contracts or the establishment of joint enterprises. It turns out now that one in five firms has participated in more than one strategic alliance. The alliances, however, are developed neither in the production cooperation nor in the research-and-development cooperation.

An overwhelming number of enterprises are still now organized in terms of function division.
Even now few firms are operated according to divisionalized organization and matrix organization.

Moreover, more importance is attached to the role of senior executives and human-resources management, but less importance is put to internal auditing, information management and logistics, that are thought to be relatively modern functions in the corporate management. These have contributed to delays in the development of professional management expertise.

2. Innovations in Hungarian Firms
Next let us examine the innovations in Hungarian firms. Firstly, it is important to point out the macro-economic impacts of R&D in Hungary, whose 1.7% of R&D expenditure per GDP in 1987 has fallen to 0.7% at the end of the 1990s, its lowest level after WW II
Reorganizations of the research institutes of The Hungarian Academy of Sciences have weakened basic research studies with the demolitions of applied research institutes attached to the industrial ministries. Innovations and technology developments have become tasks on the hands of private firms (Roderick Martin, 1999, pp.101-102).

In spite of the facts that green field investments began to introduce new western technologies, and public research institutes and research institutes of foreign-affiliated firms started to give priorities to applied research studies, Hungarian corporations are lacking in the capability to promote R&D. As far as the trends of R&D in Hungarian enterprises are concerned, more product technology developments are overwhelmingly concentrated on than basic and applied researches (56-58% and 15-18% respectively). One out of four Hungarian firms is not engaged in R&D activities. And less importance is attached to R&D activities in the corporate priority. However, no less important is the fact that dynamic changes also have emerged in this field since 2000. The enterprises that employ offensive strategy are found to be sensitive to technological development.

According to an investigation conducted in the period of 2001-2003 (Kiss Janos, 2004), 86 firms, only 29% of the total of investigated Hungarian firms, promote R&D cooperation with other companies within Hungary. 51% of the firms introduced the new product, while 38% have developed the new production technology. But, in spite of these figures, only 9% of new products reach innovativeness at a world market level while 25% get to novelty at a domestic market level and 42% show newness for its company alone. As far as new production technologies are concerned, only 5% reach innovativeness at a world market level while 16% at a domestic market level. It turns out that most innovations in Hungarian firms are concentrated on the renewal of their existing production technologies or products (Chikan Attila et al.2004, pp.30-33.).

By the way, in reference to the above characteristics, we have some very interesting facts found by the investigation conducted by Artner Annamaria (Artner Annamaria, 2005), according to which the production technology in Hungary seems to be roughly 5-10 years
behind the EU average. But this difference between the two averages seems not to be of any significance in the sense that there is a mixture between the newest models of machines, those installed a few years before and ones with even more than thirty years lifetime in factories and workshops. This mixture establishes not a mass-production system, but small-scale specific and unique patterns of production.

The investment policies of Hungarian firms, in accordance with these patterns, do not necessarily aim at the large-scale investment that could completely renew all production technology at a clip, but are oriented to a combination of partial modernization investments, uses of lease and the rental of machines, reuses of overage machines, and the purchases of somewhat obsolete machines in order to fulfill “everyday tasks”.

Much account is made not only of the increasing of the productivity of the machine but also of the reducing of the unit production cost including labour costs as well as the maintaining of profitability.

The competitiveness of Hungarian firms based on their combined production technologies also would mostly coincide with the features of Hungarian corporate innovation mentioned in the above. Moreover, it seems that the institutional innovation peculiar to Hungary to create a new device of production like enterprise business work partnerships (VGMs) and the "everyday power" of skilled workers in workplaces (Hiroshi Tanaka 2005, p.234-242) in the socialist era might connect with this combined production technology which spontaneously emerged at the enterprise level in Hungary.

**Conclusion**

The transformation of Hungarian firms in the light of not ownership and production relations, but of organization at the workplaces and factories shows us another view on the systemic transformation in Hungary. While they are strongly influenced by the EU and multinationals in respect of substantial corporate governance and innovations, they are simultaneously moving along an evolutionary path of transformation at the level of
self-organization of production. In this respect transition from a socialist economic system to a market economic system should be observed from the viewpoint of both discontinuation and continuation.
Chapter 7

**Transforming Russian Society and Enterprises**

MIZOBATA Satoshi (Kyoto University)

This system transformation has been drastically changing not only the economic actors but also the society as a whole. Russian society, however, has shown an inertia and tradition which reveals the specific features of the market institutions in Russia. This paper will analyze the structure of Russian enterprises and the relationship between those enterprises and society.

**I Russian Transformation**

The Russian transformation can be divided into the three periods after 1992: 1992-1998, 1998-2002, and after 2002. In the first period, while the shock therapy type economic policy with stabilization, liberalization and privatisation, was being carried out, Russia experienced unstable policy changes and a transformational recession. Due to insufficient market disciplines, non-monetarized transactions like barter, arrears and specific bills penetrated into the society, and the enterprises postponed restructuring. At the same time, in order to keep formal and informal subsidies, the government was dependent on short term state bonds and resource exports, which linked with the global instability ending in the 1998 financial crisis.

Privatisation policy and corporate legislations have a striking impact on the structure of Russian enterprises. Especially, the shares-for-loans privatisation and the laws on financial-industrial groups have created a specific big business called “oligarch”. There was a cozy relationship between politics and business and “oligarch” was based on rent-seeking behavior. During 1992-2001, 137,762 state owned enterprises were privatized.
Privatisation has another implication and that is the restructuring of the social infrastructure. Privatized enterprises were forced either to transfer their social assets to municipalities or to retain them. Till 1997, almost all social assets like housing, day-care centers, health centers, sports gyms and other were municipalized. As the local governments did not have sufficient budgets, enterprises themselves retained their social function in exchange for preferential treatment from the government. In the context of privatisation, people felt that there was an unfair and opaque distribution of state assets, and immature civic society and instable living conditions showed themselves.

In the second period, economic institutions and legal acts were normalized under the influence of globalization, and the positive business conditions improved the economic performance. 2003 was a year of policy change. On the one hand, the government had strengthened intervention in the economy and economic actors like oligarch. For the sake of the economic security, the government intervened in strategic sectors like petroleum and nonferrous metals through taxation and ownership. On the other hand, the Russian enterprises have been transnationalized and global activity has enlarged. Lukoil and Gasprom are typical cases, as well as IPO and others. In this context, state intervention is closely related with globalization.

II Russian big business

Big business in Russia can be classified into three types: independent enterprises, corporations (companies) and integrated business groups (Galukhina and Pappe, 2006, pp.24-25). While Russian privatisation has formed the third type of organization, after the financial crisis we can observe the following changes.

1) Ownership became the only method for the concentration of assets. The soft alliance and management based on the network organization disappeared. The controlling packet of the ownership is indispensable for control.

2) The relationship between enterprises and the state has changed from the equal to the
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subordinate. Business has lost its position in politics and lobbying is restricted.

3) The number of the big businesses is increasing and its industrial structure has also changed. By the year 2000, there were 25 companies, and almost all belonged to petroleum and metallurgy. At the end of 2005, this number exceeded 120 companies and the industrial structure has been diversified and enlarged.

In this process, the big business type has changed from the third (integrated business group) to the second (corporation or company), with changes in financing through the international markets. The corporations have changed from the conglomerate type of organization to specialized business organizations. Some groups of the third type can survive, but they have changed their organizations. Some integrated business groups are similar to the “chaebols” in South Korea.

The following factors may function. Within integrated business groups, the official contract relations take place in an informal network and the informal relations have increased the transaction costs. However, an improvement of corporate acts and business habits has increased trust relations. At the same time, the economic recovery has activated mergers and acquisition and transparency is indispensable for external finance. Moreover, big enterprises have enlarged international borrowing and consequently the total external debts have increased.

For the big businesses related with the international financial markets, adaptation to the market institutions, transparency and company organization of the western standard have become the requirements for survival.

III The Russian corporation

The basic enterprises structure is the joint sock companies (JSCs) and they are regulated by the law on the joint sock company. JSCs can be divided into the open JSC and the closed JSC whose shareholders are limited to specified members. As a variation of the closed versions (JLC’s), there is a people’s enterprise whose 75% of shares are owned by
employees. Although this act is based on the open one, the company can be easily closed. This is because the aim of the company is not financing but the acquisition of ownership, and the security markets are immature.

From the legal point of view, the control mechanisms consist of the shareholders’ general meeting, the board of directors (the board of internal auditors), and the executive committee.

The central control mechanism is the shareholders’ general meeting, which reflects the decisions of the shareholders who have voting rights. The authority inherent in the shareholders’ general meeting includes decisions that may affect the continuance of the company and the shareholders’ status such as changes in capitalization, the election of the board of directors and auditors, and capital increase. In the election of the directors, a cumulative voting system is used and the minority shareholders are secured. Although the law regulated the strong authority of the shareholders’ general meeting, it could transfer these exclusive authorities to the board of directors. Traditionally, the small shareholders’ rights have been often ignored. However, in 2001 the law was revised and their rights have become protected.

The board of directors (the board of internal auditors) is elected to guide as a group within a specific period of time and as an organization of enforcement/supervision. The authority tends to shift from the shareholders’ general meeting to the board of directors. The authority of the board of directors includes the selection of business priorities, the convening of the shareholders’ general meeting and the formation of the executive committee. The number of executive committee members cannot exceed a quarter of the numbers of the directors. A company’s operational management is carried out through the executive committee, which is either a collective or a single organ. The representative director may not be the CEO (chief executive officer) of the company at the same time. The administrative supervisor and the management are nominally separated. However, in reality, these two posts are often held at once, which results in the centralization of authority. Therefore, the authority of ownership, supervision and management can easily
be concentrated in a single hand. The employees’ participation is high in the case of a people’s enterprise. Except in this case, their influence is restricted and decreasing.

Based on the legal management structure of the corporation, the Russian model is similar to the Anglo-American model, and the power of the CEO and the board of directors is extremely strong.

IV Corporate governance in Russia

Transformation and privatisation do not automatically bring about an adjustment of the interests in the enterprise, and the stakeholder relation determines corporate governance in the transition enterprises. Generally speaking, privatisation in transition economies may cause insider control. The spontaneous privatisation (pre-transformational privatisation), preferentiality to employees, immature security markets, and the inertia of the Soviet system have inevitably influenced changes in ownership. In 1992-1995, insiders were dominant, yet after 1995 the share of the insiders was declining whereas that of the outsiders increased. Insiders, however, have kept their stable share in the redistribution period, and shareholdings are centralized rather than dispersed. Managers have changed themselves into owners, and therefore separation of ownership and management has shown the trend of their coincidence.

The concentration of capital to the nominal owners has been strengthened, using mutual shareholding and holding companies. It is said that 60-70% of ownership in large scale privatized companies is concentrated in the hands of managers. In average, the top shareholders in Russian enterprises own around 75% of shares, which is extremely high in comparison to Europe and America. A lack of measures for protecting minority shareholders’ rights, arbitrary administration of the shareholders’ general meeting, directors’ arrogance, loss making companies and uncertain information stimulated the centralization of authority into the hands of a few people. As the vertical relation within the enterprises gets stronger, the authority of managers-owners gets bigger than its
Employees exert their influence as a stakeholder. Although their shareholdings are decreasing, it is estimated that the share is stable (about 20%), and some enterprises encourage employees’ stock ownership. Employee shareholding has the following merits: motivation for work, financing within the firm, and stable shareholders. Unlike outside minority shareholders, they do not request dividends because they consider that dividends are paid from their wages. In other words, they have an interest in the maintenance of the welfare program and the offering of social services rather than dividends and try to influence corporate management for their welfare goods. The company offers employees not only temporary assistance but also regular assistance and even offers housing, meals etc. Such public goods are also provided by local governments. Local governments and employees influence corporate management in their pursuit of the security of the social services. Although the company welfare provision becomes a means to secure the cooperator who is silent for the managers, when the concealed power of employees is ignored labour conflicts arise and quiet shareholders may turn into a counterforce. Therefore, while the degree to which employees as a stakeholder have affected decision making is low, some companies (trying to avoid restructuring) have tried to keep employees from a managers’ risk evasion action. Such influence, however, is not stable.

Seen from the legal aspects and ownership and control structures, corporate governance in Russian enterprises (the Russian type corporate governance) shows unique characteristics, different from those of the Western enterprises. Typical characteristics are: 1. a high degree of concentration of ownership, 2. the closed character of major enterprises (even though they are formally open JSCs), 3. business groups by the companies, 4. the conjunction of ownership and management, 5. internal financing, 6. informalization of the board of directors, 7. the absence and inefficiency of external mechanisms. These characteristics are attributed to the Russian transformation, history and culture. These features also suggest that ownership is concentrated in the hands of managers, and that the enterprise has organized the closed community. Therefore, the monitoring of management
within the firm and outside the firm is weak, and managers are apt to cause moral hazard.

Under the influence of the fierce struggle over the ownership, revision of the corporate acts from the viewpoints of the minority protection, and the international corporate governance principles by OECD, the Russian type has to reform itself. In 2001, based on the "OECD Principles," the "Code of Corporate Governance" was drawn up. It had an advisory (recommendation) character. The business communities themselves are preparing a directive for corporate governance. "The Charter of Corporate Business Ethics" by the Russian Union of Industrialists and Entrepreneurs urge the need for the protection of ownership, compliance with the legal system and to dispute settlement by negotiation. At the very least, the corporate governance reform points at convergence on the western (global) model. In 2002, the White paper on the Russian Corporate Governance also positively valued the Russian reform.

Although corporate governance in big business is reformed, normalization is not sufficient. According to research in 2005, in 26% of companies the board of directors and the executive committee do not operate for the sake of the company itself, and there is no clear division between the board and committee. The board of directors behaves on behalf of the shareholders’ general meeting, and the shareholders’ rights are not sufficiently protected. Thus, legislation does not go with the enforcement or with the responsibility of stakeholders.

V Corporate control markets

Since privatization regarded the transfer of property right as important, corporate control markets have been promptly established, in spite of the immature securities markets. The first boom of merger and acquisition (M&A) was in the mid-1990s, and the financial-industrial groups’ formation and acquisition were used. M&A has the following motivations: concentration and diversification, reorganization, synergy effects, and the business strategy of multinationals. While in the global market, finance and
telecommunication is the main branch of M&A, in the Russian markets, resource and energy, and industry and telecommunication are the main actors, which reveals the peculiarity of the Russian market. In 2004, petroleum, gas and beer brewery occupied the top rank. Moreover, in the energy sector and in metallurgy, transnationalization and M&A by the big businesses can be observed.

The friendly M&A means that the board of directors in a merged or acquired company and has a good knowledge of the plan in advance. Here we can observe typical cases of group reorganization: integration of the group companies by the unified shares, concentration into the single corporation and others. Another method of M&A is the hostile M&A including a take-over. Generally speaking, the hostile M&A is a case where there is no consensus between both sides in advance, and where TOB and purchase of shares are often used for M&A. In addition, bankruptcy and the purchase of control packets are important measures in Russia. Besides this, the embezzlement of shares, preferred stocks, and disputes among shareholders are also exploited.

Concerning the hostile M&A, illegal take-over with the occupation of the building in the company is increasing in Russia. Such cases occur under the following conditions: dispute amongst the weak shareholders and managers in the profitable companies, concern about the specific businesses by the big holding companies, when companies have expensive values of real estate, and others.

As a result, it is argued that the cost structure of the hostile M&A is drastically changing. In the period of redistribution after privatisation, the purchase price accounted for the greater part of the total costs. After that, the costs of arbitration and administrative procedures have increased along with the official institutionalization of hostile M&A (‘s). Especially, the administrative indirect costs for the court of arbitration, the police and the prosecution, the local authorities and the financial organizations, are important.

On the one hand, the Russian type of M&A is increasing in the context of globalization and business group formation. On the other hand, the M&A indicates Russian normal investment, an increase of capital without investment, and a peculiar cost
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structure due to Russian market transactions.

VI Corporate social responsibility (CSR) in Russia

In contrast with the new member countries in the EU, the corporate governance reform in Russia is inseparably related to CSR. Managers have intensified social programmes with improvements in labour conditions and workers’ training in order to raise the company’s reputation and establish corporate identity. Employees and regional residents become direct beneficiaries. The state (the regional governments) has actively supported this process in order to decrease their financial burden. Therefore, various stakeholders have supported harmonizing with the West on CSR.

The following context leads the Russian entrepreneurs to CSR. First of all, marketisation revealed the negative phenomena between the state and enterprises like corruption and the lobbying of economic actors has guaranteed the survival of the (big) enterprises. Particularly, the Yukos affair caused by the big petroleum oligarchic company raised a serious problem on the companies: capital flight, opaque property rights, transparency in corporate governance, compliance in taxation, and social justice. Secondly, the Russian enterprises have the inertia of the socialist system, and the welfare system of the company has also functioned in the transformation. In the local communities, there are so many enterprise towns, and the inertia suggests companies cannot ignore CSR. Thirdly, Russian enterprises have been globally influenced in their management style and corporate culture. Since the 1990s, the European commission has taken an active interest in CSR. The Green paper “Promoting a European Framework for CSR” (2001) and the World Economic Forum made the Russian business society recognize the importance of CSR. Particularly, big business is very active for CSR due to their global business strategy.

While social functions were transferred to the local authorities, they did not have sufficient rights and funds for keeping the social assets which the enterprises passed. As a result, many enterprises have to either keep their traditional functions or to collaborate for
social infrastructure based on the mutual agreements. This process, however, has
strengthened the relationship between enterprises and the government, and subsidies and
preferential treatments have been sustained by all stakeholders of social assets.

In order to realize CSR, managers have taken a considerable interest in social
investment and policy. According to the Managers’ Association in 2003, the average social
investment per employee was 28,300 rubles. Its ratio in the total sale was 1.96% and its
total profits were 11.25%. The main targets of social investment were the creation of new
jobs, corporate in-service training and a healthy corporate system. While intra-firm
programmes were dominant with respect to social investment in 2003, investments for the
local community such as the protection of the environment showed an increase in 2004. In
enterprise towns, in particular, CSR is indispensable for the local residents.

A comparison of CSR in Russia and Europe, however, clarifies the Russian corporate
structure. In contrast to CSR in Europe where companies and the local community play a
central role in stimulating CSR, in Russia, the central and local governments have a strong
influence on CSR. In addition, since the concept of CSR that is common to all stakeholders
has not yet been established in Russia, there exists a barrier with respect to co-operation
among businesses, communities and the government. Moreover, since the Russian
enterprises have evolved from the Socialist system, CSR is regarded as an important
sphere of insiders’ corporate control and negotiation between business and the government.

Although CSR may be regarded as a process of normalized corporate behavior, the
Russian case indicates the specific relations of stakeholders and the negotiation process
between the state and enterprises. Moreover, the socialist inertia similar to the Japanese
intra-firm welfare system has also functioned and we cannot neglect this influence, as long
as the employees and residents have kept a positive stance to the inertia.

Conclusion

Russian enterprises include three functions: economic and productive, social and regional,
As long as Russian enterprises have a social responsibility, privatisation (transfer of property right) does not automatically guarantee the enterprises’ freedom from its social functions. On the contrary, when these functions are transferred to the municipality, the linkage between the region and the enterprise becomes strengthened. The local politicians have much interest in local stability. This is a reason why the social capital has had importance attached to it in the transformation.

Moreover, the enterprises include the political function. Traditionally, the enterprises behaved politically and negotiation (bargaining) was indispensable for their survival and after the transformation, enterprises retained their lobbying and negotiation to the governments. At the same time, bureaucrats kept their power of intervention in the enterprises and this bureaucratic intervention seems to have enlarged. Local governments used not only tax and subsidies but also approval for intervention. Law keeping organizations like polices have been active when concerning these enterprises and some of them have commercialized their control.

Russian enterprises have drastically changed their structure: organizations and institution, and I argue that their institutions may be modeled on the American and the European enterprises. The corporate governance (legal) reform and CSR may be regarded as their typical response. Transnationalization also leads the managers to adapt to global rules. In spite of the superficial and formal changes in enterprises, the Russian society has shown its own specificity. The enterprise system and the enterprise-society have been affected not only by formal institutions but also by the national traditions and norms, and the inertia of the former system. In turn, the latter has modified the institutions or made the formal rules to adapt to Russian society, as long as the contemporary management takes account of the interests of stakeholders.
The functions of enterprises in Russia

- Political
- Administrative
- Lobbying
- Economic (productive)
- Social
- Regional
Chapter 8

Issues in Business Administration and Corporate Social Responsibility

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Preface

Corporations reflect the characteristics of a society. The way that a corporation operates shows how its local society functions. In Japan, well-established corporations have recently committed a number of violations, one after another. The society of Japan has a plethora of problems consuming the nation. These problems have triggered a vicious cycle where a corrupt society deteriorates corporate integrity, and faltering corporate integrity in turn exacerbates the corruption of society.

Each time a corporation causes a scandal by violating the law, the public censures the illegal practice. Usually, the corporate representatives vow not to make any infractions again, asserting they will recover the public trust, and inevitably the president resigns. Compliance with the law means more than abiding by corporate law; corporations need to systematically establish and maintain ethics codes that comply with societal ethics, basing their operations on sound business principles. The self-discipline of a corporation is extremely vital, not just to the corporation, but also to Japanese society which demands more ethical practices.

A grave discrepancy lies, however, between the societal expectations on corporations and their actual business practices. Business administrators can ameliorate this discrepancy through corporate social responsibility (CSR). The issue of CSR has risen recently in business management (BM) because CSR questions the existence of the modern corporation itself. When a corporation commits a violation, an anti-social act, it risks not
being able to continue operations in the business world. The validity of this statement can be proven by the capital failures, following breaches of the law, from corporations such as Snow Brand Milk Products Co., Ltd., Mitsubishi Motor Corporation, and Kokudo. Compliance with corporate law is a CSR not to be neglected. To be a dutiful participant in society, a corporation must follow societal rules. The first step would be to accept CSR. To fulfill CSR, a corporation needs to help create a self-sustainable society, contribute to it, protect the local environment, and protect the stakeholders as well. Corporate administrators must make clear what corporations can do to achieve these objectives.

The following points outline the present situation of Japanese corporations and the development of their reforms.

I Japanese corporate governance and CSR

Causes of the high frequency of corporate law violations in Japan are listed as follows.

1) Most corporations in Japan have not adopted CSR policies. Those that have are highly evaluated by the public. However not enough corporations have institution-wide systems to be in compliance. The business policy of pursuing profit over everything else is still dominant in the business sector.

2) According to a questionnaire administered in Japan, 80% of the corporations listed in the stock exchange have been working on how to adopt CSR policies. However, the respondents did not consider adopting these policies as a responsibility of the individual company, but rather as an undertaking to keep current with business trends. In short, the incentives were nothing deeper than external pressures to keep the appearance of staying competitive.

3) Corporations in Japan are inclined to value capital-labor conciliation policies, secrecy, and cover-ups. As a result, when their law violations are disclosed to the public, they take care of the matters in an anti-social, closed manner.

4) Corporations in Japan do not have systems to deal with public disclosure. Most of
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the known corporate crimes were disclosed by telltale reports from insiders, meaning employees or those closely affiliated.

(5) Significant faults plague corporate governance in Japan.

(6) A number of corporations operate without a labor union. For those that do, the labor union connives with the corporate management, debilitating its function as watchdog. Even labor unions do not take social responsibility.

(7) The independence of stakeholders is not strongly established in Japan, so their actions cannot effectively work as a counterforce to the decisions of corporate management.

Among these listed causes of violations to correct, the improvement of corporate governance is crucial. Corporate governance should be made clear and available to the public. Also it should be institutionalized to maintain societal ethics, stakeholder responsibilities, and healthy operations. The form of institutionalization should be dictated by the history and characteristics of society.

II Study of critical management theory and CSR

BM is expected to develop a theory that defines the corporation as a responsible social component, performing in the roles that society expects. Also, the field faces the demand of creating realistic perspectives and solutions to the tensions seen between society and corporations.

Since its beginnings in 1930, Critical BM (CBM) in Japan has been progressing uniquely. This discipline originated from the question of how to relate the corporation with society. The issues now of reorganizing CBM to meet modern problems also follow the same questioning, reconfirming the original starting point of CBM.

Through the characteristic evolution of its theoretical framework, CBM finds validation through a synthesis with the growing movements of labor, national citizens, and
local residents during a time when Japanese capitalism brings tensions within society. CBM has been developing consistently with the aim to propose solutions to current issues from the multifaceted perspectives of the numerous people who work in corporations and in society.

In the current restructuring of CBM, by reviewing what has been achieved in the field, verification can be made of what should be kept for current needs. CBM should continue making progress the way it has since its inception. Based upon its achievements, it needs to go beyond the constraints of the times, and address the diverse issues related to the rapidly changing modern society.

The first point to keep is the responsiveness to public requests. By providing grounded theories and reasoning, CBM responded to the public request to stop anti-social behaviors of major corporations in the 1970s. CBM faces similar issues now, and it is vital for it to develop practices in response to the needs of society.

The second point to keep is the involvement of political economics. When CBM developed the democratic regulation theory, it was criticized for making the governance of corporations a political issue. Corporations exist in the current social system. It is indispensable to analyze the society, the politics, and the economy for a holistic understanding of the situation that a corporation faces. The field of CBM should not be constrained to the philosophical world by turning away from complex realities. CBM policies demand cooperation from the capitalistic government that provides corporations the opportunity to accumulate capital. These policies play a significant role in shaping government regulation on business practices, so placing the field of BM within the realm of political economics yields a critical perspective.

The third point to keep relates to the treatment of radical factors. The mainstream position holds that the indoctrination of individuals within the corporate ethos causes immoral behaviors that lead to the radical factors behind corporate scandals. However, this position does not hold that the corporate ethos is to pursue profit over all other considerations. As explained, the monolithic pursuit of profit leads to self-destructive
radical factors. The objectives of CBM can help guide regulations on profit pursuit within social constraints. CBM does not concern itself with modifying the system of pursuing profit itself, for that is the basis of corporate existence. Furthermore, CBM cannot reform the social system. But within the corporate system, it can form the notion of social responsibility, thus affecting the wider social system through the elaborated, far-reaching productive power of the corporation.

The fourth point to keep relates to the pursuit of corporate reform. Traditional theories such as Marxism lack corrective mechanisms that address corporate ills. However, CBM has such mechanisms, exemplified by the theory of democratic regulation in the 1970s. The next step is to investigate the theoretical issues which this reform theory could not cover, and examine the ongoing discussions about corporation reform.

The fifth point to keep relates to the inclusion of individuals who implement corporate reform. It is crucial to recognize current stakeholders of corporations as powerful promoters of CSR and corporate reform. The doctrine of corporate democratic regulation went beyond the concept that all social movements belong to labor movements. In typical fashion of the social situation at that time, the doctrine recognized resident and consumer movements as promoters of democratic regulation. However, it developed no further. Executing corporate reform necessitates organically combining the diversified multi-layered activities of corporate stakeholders, and including citizens as a participatory entity under the unification.

A historical analysis of CBM instructs that the discipline should fulfill current societal needs by grounding and developing its theories upon those needs.

III Socialization of management and social regulation

The most important factor in promoting CSR is raising the awareness of both stakeholders and those at all levels of society. With awareness, local residents, national citizens, investors, and corporate leaders cannot avoid CSR; they must respect it. As the
criteria for operational practices changes from pure-profit-based to CSR-based, business practices will become more consumer-oriented and public-friendly. Moreover, as the essential corporate aim of building capital will not change, CSR will become profit-driven.

Greater societal demands on corporations force a stronger bonding of the social aspects with management practice; this is “the socialization of management.” Further bonding will come from a process of adjusting inconsistencies between the private corporate aspect and public aspect by enlarging the societal factors in corporate operations.

(1) Corporate business practice and the socialization of management

The social management of corporations has two elements: voluntary self-regulation and social regulation.

Considering the prevailing unmet investment in social responsibility, despite the requests of stakeholders and the needs of larger populations, voluntary corporate self-regulation is as yet inadequate. Here, social management can critically develop an economically-based society towards business policies that favor social orientation over pure-profit orientation, and thus respond to societal needs. Social management will eventually lead to improved corporate value, greater trust from consumers, more investment, acceptance from the local community, and high evaluations from environmental organizations.

(2) Social regulation and CSR

From an international perspective, corporations in Japan have fallen behind in adopting CSR. The current situation provides a hotbed for serious violations. Voluntary corporate self-control has its limits. To force corporations to act responsibly, it is extremely critical to tighten social regulations on corporate business practice.

There needs to be a continuing development of BM theories, just as there has been, and a critical examination of corporate operations. Towards such improvement, the role that BM plays is increasing.
Chapter 9

Evaluation of Corporate Social Responsibility (CSR) and the Market

TANIMOTO Kanji (Hitotsubashi University)

Introduction

The purpose of this paper is to define corporate social responsibility and consider how socially responsible companies come to be evaluated at the market level, in an era that has demanded the sustainable development of socioeconomic systems since 1990.

I Definition of CSR

At first, we will define the concept of CSR (Corporate Social Responsibility). Till now, there have been various discussions on the definition of CSR. The first typical understanding of CSR is that it involves a balance between economic and social aspects. But CSR is a discussion on the process of corporate economic activities per se, not how to balance economic performance and social performance. The second is a typological understanding. Caroll(1981) defines the concept of CSR as a pyramid formed in four-parts; 1st-economic responsibility, 2nd-legal, 3rd-ethical and 4th-discretionary responsibility = philanthropy. However, this typological approach cannot analyze the complicated relationship between corporations and society. The third is understanding CSR as a distribution of added value. A theory of CSR accounting shows that added value should be distributed equally not only to stockholders but also to other stakeholders. The essence of CSR discussion is the process of economic activity itself which produces the economic values. Corporations are required to conduct activities in a socially responsible way to
develop a sustainable socioeconomic system.

The essential point of CSR is to incorporate social fairness, ethic, environmental and human rights in the management process to make clear their accountabilities to the stakeholders.

What is questioned now is how to manage the issues such as environment, labor and employment, human rights, products, work environment and human rights in developing countries, and the disclosure of information. It’s not proper to define that compliance comes first and CSR goes beyond it.

II Evaluation of Market Society

Up to now, CSR has been treated as a periphery of business management, and as a social issue. However, recently it is beginning to be understood as a major part of management, and as an economic issue. It was seen that companies that caused social problems used to be asked their responsibilities, and they came under pressure from social movements outside the marketplace. But since the 1990s, not only boycott activities, but the criterion of CSR has been incorporated into investment, finance, transaction and procurement. Rating and choosing companies in the market by the criteria of CSR is starting to become mainstream. Figure 1 shows the transition of the positioning of CSR in management issues.
The following are the main five reasons for demanding CSR in the market.

1) Purchasing Standards of Consumers (boycott/boycott): NGOs monitoring the corporate activities and providing information have grown and gained public support.

2) Code of Conduct: Standards of corporate activities set by NGOs, international institutions and management organizations. ISO now discusses the setting for a new guidance on the social responsibility of an organization; ISO26000 (http://www.iso.org/sr).

3) Standards of Investment: The total assets of Socially Responsible Investment (SRI) have grown for the past ten years, and have increased in popularity (SIF2006). A growing number of institutional investors, mainly in pension funds, are beginning to carry out SRI.


5) Standards of CSR Procurement: A standard of CSR is incorporating into transaction and procurement conditions. CSR is becoming incorporated also into government procurement.

By setting a standard of rating corporations in the market beyond costs and the quality of products and services, CSR is growing in demand, and corporations are asked...
whether their production process is proper or not, and whether their management system is account-able or not. CSR elements will get involved with criteria in consumers buying products, investors evaluating corporations to invest, and financial institutions making a loan. Also, CSR is beginning to be included in procurement agreements with suppliers. Environmental and social aspects are joining with subjects such as quality, and cost and delivery date, and CSR procurement is appearing in the market. Through incorporating CSR into the base of economic activities, a new norm is gradually developing in the marketplace, and is leading to the formation of a new standard of corporate evaluation. (see Figure 2)

With these trends in the marketplace, companies have no choices other than to respond to CSR issues properly whether they can afford to “invest” or not. Of course that does not mean CSR is already incorporated and fixed as a mainstream of the marketplace. But in the past ten years, such movements have gradually spread around the US and EU markets. It can be said that the discussion of CSR is maturing and comes to stay as one of the norms in the market.
Evaluation of Corporate Social Responsibility (CSR) and the Market

Figure 2: Evolution of Market Norm

- Local/Global trend of demanding for Sustainable Development and CSR
- Corporations are asked under what management systems they produce their products and make profits
- Spread of activities such as investment, consumption and working based on corporate social evaluation
- Corporations are demanded to focus on CSR
  - Implement of CSR management
  - Establishment of stakeholders relationship

Norm that evaluates socially responsible corporations is shaping in the marketplace
III The Function of SRI

Next, we will confirm the functions and meanings of SRI and CSR procurement system. Let’s focus on the following two styles of SRI. Social Screen: Selection of investment stocks, by rating corporations by both the financial index and the social index and the establishment of SRI mutual funds. Shareholder Activism: Dialogue and engagement with corporate managers taking shareholder resolutions (Tanimoto 2003).

SRI assets in the USA rose more than 3.6 times from $639 billion in 1995 to $2.29 trillion in 2005 (SIF2006). This is 9.4% of the $24.4 trillion in total assets under professional management. Nearly one out of every ten dollars is involved in SRI.

In England, total assets by social screen stood at £224.5 billion in 2001, 12.7% of the market (Sparkes 2002). It grew about 10 times comparing to £22.7 billion in 1997. One of the reasons of this growth, especially with the revision of Pension Act in 2000 as a turning point, is that pension funds incorporated SRI into their performance.

In Japan, the size of SRI is still very small, it is composed of only SRI mutual funds and just a few corporate pension funds. As of the end of March 2006, there were 24 SRI funds, their total assets ¥258.5 billion (http://www.morningstar.co.jp). The total net assets of all the mutual funds in Japan at that time is ¥58.479 trillion$^{1}$, so the percentage of SRI assets is only about 0.4%. This means SRI mutual funding is not enough strong to influence on the market.

SRI has not yet become a mainstream of the market even in the US, nor in England, having the largest SRI market. The current small size of the market does not allow companies which are selected in the SRI index and mutual funds to have the advantage of others in fund raising. However, corporations chosen from the broad rating standards such as social, environmental and economic aspects, receive good reputations in the market society. It might take a little more time until earning a high reputation in the SRI rating comes to be understood as a common criterion in the general finance market. To have the market mature to evaluate CSR, establishing the laws and systems expanding SRI and
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helping individual/institutional investors to grow are also required.

With the trend of SRI becoming a mainstream as indicated above, the mainstreams in finance have tended to include SRI in their financial scheme recent years. In financial institutions, a trend of incorporating Environment (E), Society (S) and Governance (G) into investment standards is beginning to spread. The rating of corporations is based on financial data in the mainstream, but in the mid-and long-term, environmental risks and an inadequate governance system influence the financial performance. There is such a movement to try to take on these material elements into corporate evaluation. It is said that this style involves only socially critical risk factors and differs from the basic SRI style that covers all of the social and environmental issues. However, as the market matures, mainstreams in finance face to meet these needs responsively. It is said that the rating systems for corporations have been gradually changing.

Asset Management Working Group of UNEP FI issued a report “Materiality Report” on June 2004. Materiality is a term that means having an important impact on corporate management and evaluation. UNEPFI is considering an investment principle for institutional investors that points out that those factors such as Environment, Society and Governance have a great impact on the investment portfolio of institutional investors. The United Nations secretary general Kofi Annan launched “The Principle of Responsible Investment” in April 2006(http://www.unpri.org). This is a guideline of how to consider E, S and G when financial institutions make investment decisions and involve themselves in the stock market. The importance of a rating style called “Materiality Evaluation” is starting to be realized now.

IV The Function of CSR Procurement

Next, we will look at how CSR procurement works. If CSR comes to be incorporated as a part of procurement standards, corporations will get influenced directly by its movement. Along with a spread of production network, not only for parents companies but
subsidiaries, supply chains and subcontractors both at home and abroad, their business process and CSR systems are beginning to be questioned. Quality, cost and delivery dates are indispensable for purchase agreements. In addition, “environmental procurement” which outlines standards for the environment has been incorporated into purchasing criteria and has spread and stabilized over the last ten years. Along with the globalization of production activities, strict environmental standards are required also in local production factories. In addition, compliance followed by labor and human rights issues is to be included in the criteria.

As a negative part of globalization, the “sweatshop” problem, forced labor under poor working conditions, has been revealed in the developing countries. NGOs criticizing and monitoring labor, human rights and environmental issues in factories in developing countries are growing. Should the boycott movements become spread in the market, corporate reputations would get severely damaged. In this situation, companies including suppliers and their partners abroad are beginning to engage in making procurement standards on labor, human rights and environmental issues. IT companies in the US and Europe establish an unified platform of CSR procurement.

For instance, Hewlett-Packard has been active in CSR procurement since 2003. The following companies have joined HP: Del, IBM, Cisco Systems, Microsoft and Intel and so on. They collaborated to establish a uniform standard of CSR procurement “Electronics Industry Code of Conduct” (EICC) in the fall of 2004 (http://eicc.info). EICC have been outlining standards to promote industry criteria for socially responsible business across the globe since 2005. The Code is made up of five sections. That is, 1)Labor, 2)Health and Safety, 3)Environmental, 4)Management System, 5)Ethics, (Version 2.0 October 2005). The companies work collaboratively with suppliers to develop harmonized approaches for the monitoring, reporting, and auditing of the social and environmental issues and programs to enhance supplier capabilities.

In Europe, Global e-Sustainability Initiative (GeSI) is developing a supplier standard based on CSR in the information and community industry (http://www.gesi.org). The core
members of the working group, CSR on supply chains, are BT, ERICSSON, Vodafone, Motorola, Deutsche telecom and Panasonic mobile. EICC and GeSI established a partnership in the fall of 2005. HP and Cisco system are the same members of this group. They are expected to establish a unified method of monitoring suppliers and of risk assessment.

Some Japanese companies are also making efforts to set CSR procurement standards. Sony participated in EICC in 2005. NEC have incorporated CSR into fundamental policies of their procurement standards since 2005, and they are demanding their suppliers to consider CSR. The following six points are indicated as major issues especially from the point of risk management: 1) Quality and safety risk of products, 2) Environmental risk, 3) Information security risk, 4) Risk of fair-trade, 5) Occupational safety and health risk, 6) Human rights risk. According to NEC’s CSR section, they have already dealt with 1) ~ 4), but haven’t started to commit 5) and 6) in the developing countries. A lack of understanding CSR in the developing countries can be seen among most of the Japanese companies.

In implementing CSR procurement, it’s important to make collaborative efforts with group companies and suppliers without a one-sided rule for subcontractors, the same way as environmental procurement is conducted. For example, the CSR manager of Mitsubishi Plastics, Inc. says that they are aiming for sustainable development with their partners as following the standard, not focusing on selecting their business partners. In contrast, Wal-Mart in China takes a strong position to have no commitment or to even cancel their contracts with companies without a certain achievement of CSR.

As the network of CSR procurement spreads in the market society, its influence becomes much stronger. NEC is included as one of the top 40 suppliers of HP from the beginning when it started in 2003, and NEC were also demanded CSR procurement from Vodafone in England. But they could not manage issues such as improving working conditions and human rights in developing countries although they were preparing for their CSR management system. They had to grasp the situations of suppliers and take a serious
approach to CSR consistently on a global scale. With their group companies, they reviewed their code of conduct, and have started to develop a new approach to those issues since April 2004. 

There is global pressure on many Japanese companies concerning CSR procurement because they have not properly managed their local subsidiaries’ and suppliers’ activities in developing countries. Domestic suppliers and small and medium-sized companies are finding themselves in a situation where they can’t say they have enough resources to carry on CSR any more. The requirements of CSR procurement will spread more in the near future.

When implementing CSR procurement, we face financial burdens. It costs a lot for manufacturers to develop their own standards of behavior in order to operate and improve systems that supervise, manage and monitor their suppliers. To reduce such costs and prevent the companies which are already committed from being disadvantaged, it is a good idea to construct common platforms. For the suppliers, it’s tough work to meet the demands of compliance with each standard from different manufacturers. If a unified standard comes to be specified by industry, that would lead to cost saving.

Notes
1 The Investment Trusts Association, Japan, http://www.toushin.or.jp/result/getuji/g5.pdf
2 http://www.unepfi.org/work_programme/investment/materiality
3 From the interview with Mr. Hitoshi Suzuki, Manager of CSR Promotion Unit and Social Contributions Office, NEC, Jan. 28, 2005
4 Nihon Keizai Shinbun, Dec. 26, 2005
5 The same as note No.3.

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Chapter 10

Corporate Governance:
an Approach to Business and Society

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Introduction

Corporate governance has been a key subject in many nations since the 1990s. It refers to the process by which a corporation is directed and controlled. The board of directors plays a central role in corporate governance. Corporate governance is also affected by institutions and culture. The institutions include law, regulation, market, and organizations. Culture means both the values and the organizational climate.

I Controversy on corporate governance

In Japan, the corporate governance problem is still a matter of controversy among researchers. They argue over what the purpose of a corporation is. Some of them insist that corporations operate with the sole object of increasing shareholder value. They say that the purpose of a corporation is to maximize shareholder value. The value of maximization is that it tells the participants in an organization how they will assess their success in achieving a vision or implementing a strategy.

However, this is only one point of view regarding the purpose of a corporation. Other researchers raise an objection to these opinions, and one of them insists that corporations operate with the sole object of increasing the interests of core constituencies, which includes top managers and middle managers. Large corporations have a Japanese styled employment system. This is characterized by lifetime employment, a seniority system, and
Corporate Governance

a company union. In this system employees used to make a lifetime commitment to the growth of the company that they were employed in. Many top managers were once low-level employees. However, this system has changed since the 1990s.

II Reforming of Corporate Governance

The U.K. has set about reforming the corporate governance system since 1992. Some committees established by self regulating organizations published a “code of best practice” and required public companies to comply, or explain. There is a tradition of self regulations and “common law”. Institutional investors estimate corporate reports to decide their investment.

In the U.S., many corporations have board committee systems, which include an audit committee, a nomination committee, and a remuneration committee, independent directors, and a small sized board. These are features of the corporate governance system. Sarbanes-Oxley Act was legislated after the Enron-World.com scandal. This act is done by the federal government, although each state government regulates business corporations conventionally. The Sarbanes-Oxley Act creates the Public Company Accounting Oversight Board, requires the CEO and the CFO to sign and certify the accuracy of annual and quarterly financial statements, and establishes heavy criminal penalties for violating its provisions. In the U.S., the proportion of equities held by institutional investors increases and is about half of all. There are also criticisms of CEO compensation.

In Japan, Sony reformed by reducing the number of directors while bringing in more executive officers in 1997. It is called the separation of execution from decision-making. Sony introduced the board committee system, too. After that, about 500 companies adopted this model. As a result, the number of directors became smaller; the average number is about ten. Some companies including Toyota Motor introduced more corporate auditors from the outside.

In Japan the government plays an important role in reforming corporate governance.
The Japanese Commercial Code has been revised several times since 1993. In 2005, the company act was legislated. The Japanese Commercial Code (revised in 2003) enables Japanese companies to introduce a board committee system. This board committee system is composed of an audit committee, a nomination committee and a remuneration committee. The majority of the committee members are directors from outside the company. In 2005 about 100 companies including Sony and Hitachi adopted this model. This system promoted the separation of execution from supervision. Many large companies, including Toyota Motor, Matsushita Electric, and Canon, however, did not follow suit.

After the exposure of malpractice, some companies including Snow Brand Milk have brought in directors from outside to manage the ethics committee. They take charge of the ethics communication systems and the ethics training programs.

TSE, The Tokyo Stock Exchange, presented the Principles of Corporate Governance for Listed Companies, which includes the “Rights of shareholders”, “Equitable treatment of shareholders”, the “Relationship with stakeholders in corporate governance”, “Disclosure and transparency”, and the “Responsibilities of the board of directors, auditors or the board of corporate auditors and other relevant groups”. The purpose of these Principles was to provide a necessary common base for recognition, thereby enhancing corporate governance through the integration of voluntary activities by listed companies and the demands by shareholders and investors.

### III Stakeholder engagement

In the U.K., U.S., and Japan, the government is the key stakeholder in reforming corporate governance. The government has the power to regulate corporate behavior and enact new laws. Institutional investors are also the key stakeholders. They own a large part of all listed stocks and some of them press CEO for reforming corporate governance. Some institutional investors including pension funds adopt the policy of socially responsible
investment. Other organization including PRONED, CERES, and JCGF propose their ideas on corporate governance.

**Conclusion**

The relationship between business and society affects the structure of corporate governance. Recently this relationship is changing in Japan. More recently the practice of cross-shareholding has been decreasing, causing more Japanese companies to become vulnerable to take-over bids. Hostile takeovers against large public companies were put into practice in 2005. Corporate governance is in a period of transition.
Corporate Enterprises and Society in Social Network Perspective

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I Corporate Enterprises and Inter-corporate Relationships as Social Relations

Corporate scandal occurs frequently and is a global problem. In order to tackle this one particular problem to be solved is how to check and monitor corporate behavior and corporate power structure. In order to grasp enterprise and society in this paper, I will consider focusing the power balance between corporate power and the stakeholder. In particular, I will take notice of inter-corporate relations as one of social relations among enterprises.

I consider that inter-corporate relations influence directors’ activities, especially corporate power and the top-management function of individual companies by way of constraint conditions. In order to elucidate these relations, I will apply the techniques of social network analysis. Inter-corporate personal relations are measured by the techniques of social network analysis. Social network analysis is a technique which applies the graph theory of mathematics to social structure analysis. Accordingly, in this paper, I will focus on the structure of inter-corporate personal relations around enterprises in America and in Japan, I will attempt to elucidate the structure of interlock directorate networks, because they depends on the system of inter-corporate relationships in which the individual corporations are implicated. Such research must focus at the outset on the complex relationships in which a single corporation is itself involved in.

Inter-corporate relations are composed through a variety of capital, commercial, and
personal connections among individual corporations. Since inter-corporate personal relations act at a level of boards undertaking strategic decision making, namely a level of top-management, I will focus on inter-corporate personal relations.

The analysis of inter-corporate personal relations can be classified into an organizational perspective, a social background perspective, an inter-organizational perspective, and a class-hegemony perspective. On the inter-organizational perspective, inter-corporate relations are regarded as a factor of the environment around individual companies and as a factor to decide individual companies’ operation. In this paper, I will attempt an analysis of inter-corporate personal networks based on the perspective of inter-organization.

Multiple directors have a chance to approach the inside information of individual companies, which have a role to communicate from one company to other companies. In particular, outside or non-executive directors bring information and opinions from outside the company and have a function as advisers on ideas evolved within the executive. Multiple directors play a role as representative persons of systems of financial capital as a whole.

Inter-corporate personal relations on the level of top-management, therefore, are regarded as the channel of information which influences the strategic decision making of top-management. I consider that it is instructive to observe the structure of interlocking directorate as it exists relatively independent of inter-corporate shareholding.

II The Theoretical Model of Inter-corporate Personal Relations and Corporate Power

Early research on interlocking directorates between banks and non-financial enterprises was taken up by O. Jeidels, R. Hilferding, V. I. Lenin, and others as the basis for their analyses of economic power. An interlock is created when two companies have a director in common, and a director who sits on two or more boards has been termed a multiple
director. The typology of interlocks is based on the intensity of the interlock between any two companies.

In the model of management control and the resource dependence on interlocking directorate, enterprises in which there is a high level of share dispersal continuously scan their environment through interlocks. Internal or executive directors on enterprises have enhanced opportunities for action. On the other hand, in the model of constrained managerial control, outside or non-executive directors on the board may be able to limit managerial options.

With the model of bank control, interlocks may be created for the purpose of control. One bank based on capital and commercial relations may attempt to exercise control over another in order to maximize its own advantage. The model of bank control has generally stressed this type of interlock. However, bank interlocks do not result from attempts at control. Non-financial companies seek vertical interlock with banks and other financial institutions so as to ensure easier access to capital. As those companies are well placed in relation to banks, they tend to find themselves better able to obtain capital.

Though not the bank control model, the concept of hegemonic domination can also be used. Because of the bank’s position in the flow of capital in the inter-corporate network, banks have become hegemonic enterprises. Accordingly interlock networks create a pattern of financial hegemony.

The model of finance capital points out the specific role played by banks and other financial institutions. Finance capital represents the fusion of bank capital and industrial capital. Banking and non-financial capital fuse to form finance capital. Banks occupy central positions in the network, and bank centered clusters are a feature of inter-corporate relations. The finance capital model seems to be the useful for grasping the structure of the inter-corporate relations among large enterprises. Therefore, it is necessary to understand finance capital as involving distinct forms of inter-corporate relation.
III Specific Characteristics of Social Network Analysis

Social network analysis focuses on the patterns of the relationships between actors (individuals, groups, organizations, or other formations). It does not focus on the individual characteristics of those actors. I will specify a structure of interlocking directorates through methods of social network analysis.

Firstly, I will measure a score of the centrality of individual corporations composing network. Local centrality (after this, called centrality) refers to the immediate connections of a company and is typically measured by its adjacency. A central company, therefore, has a large distance between its neighbors. By measuring the centrality, it is possible to identify those companies that hold relatively individual central positions.

Secondly, I will look at the cohesion of a network. The cohesiveness of a network is represented by the features of the network as a whole. In this, the single most frequently used measure of cohesiveness is density. The density is the ratio of the actual number of lines in the network to the number of lines which would be present if all points are connected to all others. I think that density is usefully employed in longitudinal comparisons of the same partial network over time. Density is calculated using the following formula.

\[ D = \frac{L}{N(N-1)/2} \]

L : the number of lines
N : the number of points

Thirdly, I will identify an internal structure of a network as the nesting of components. The basic image in a nested analysis is that of a contour map, or each component being nested within a larger component. It has been proposed that the method of nesting is based on the use of the multiplicities on the lines as a measure of intensity. This multiplicity based measure results in the identification of m-cores. In this paper, an m-core is referred to as a nested component. A nested component is a chain of points connected by lines of a specified multiplicity. In this, a cut-off criterion is the average or
more of the multiplicity of the lines.

IV The Structure of Inter-corporate Network through Social Network Analysis

Through making a comparative study of interlocking directorates around an American company (General Motors) in 2003 and around a Japanese company (Mitsubishi Heavy Industry) in 1994 and 2003, I will attempt to make clear the structure of an interlock network.

When I apply centrality analysis to the network, I confirm the impression, (formed from a number of interlocks) that financial companies and major large industrial companies in America and general trading companies, major industry companies, and financial companies in Japan are the key nodes in the network. When I apply the cohesiveness of the network as a whole both in America and Japan, the score of network density is 0.0110 in 2003 (America). In Japan, it has increased to 0.0074 in 2003 from 0.00558 in 1993. The nested components are identified as 3 components in the U.S. network. In the Japanese network, they are identified as 6 in 1993 and 2 in 2003.

V Inter-corporate Personal Relations through Social Network Analysis

As an enterprise is a constituent of civil society, I consider inter-corporate relations to be a species of social relations. I also consider the structure of inter-corporate relations as social relations from an inter-organizational perspective. Through the technique of social network analysis, I will confirm the feature of inter-corporate relations around typical large business enterprises in America and Japan.

Banks and other institutions, general trading companies and large industrial companies in Japan lie in central positions in the inter-corporate networks in America. They exercise a considerable influence over the flow of capital and the flow of information.
about the availability of capital and investment opportunities. General trading companies, large industrial companies, and banks also lie in central positions in the inter-corporate networks in Japan. They exercise a considerable influence over the flow of capital and the flow of information on strategic decision making. Enterprises that carry on businesses worldwide hold a central position in the network both in America and Japan. Therefore, a sphere of influence exists in the network and interlocks affect individual enterprise decision making as a structural constraint.

However, in this paper, since I am considering the relevancy between inter-corporate relations and individual companies, I can not examine the relevancy between multi-stakeholder and individual companies. In order to grasp the relations between an extensive stakeholder in society and enterprises from an inter-organizational perspective, I need to make the power structure of large enterprises clear in connection with enterprises and society.
Chapter 12

Relation between a Company and Society Seen from the Viewpoint of a Nonprofit Organization: the Directivity of Comparative Studies of Management

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This paper considers the nature of "profits" and "missions" through the comparison of a company and a nonprofit organization. The candidate for the analysis of "business administration" was mainly a company. The new viewpoint found out from a nonprofit organization is also taken in. Then, the possibility of a new "management" concept which grasps a company not only from the viewpoint of "profits pursuit" but from the viewpoint of "missions pursuit" comes out.

There is a limit in analyzing a company only with the viewpoint of "profits pursuit." Other important sides may be overlooked especially ones such as "the relation between a company and society". Many companies that contribute to society exist even though they pursue profits.

Moreover, it is also a mistake to assume that nonprofit organization must not pursue profits. For a nonprofit organization, "achievement of missions" is a problem of the utmost importance. Many nonprofit organizations which gain profits, also actually attain missions and are contributing to society.

If a company and a nonprofit organization are evaluated in terms of its "relation with society", the viewpoint "whether social responsibility and a social mission are achieved" is more important than the viewpoint "whether profits pursuit is carried out". Isn't it important to analyze the management of a company or a nonprofit organization from such a viewpoint?
Relation of a Company and Society When Seen from the Viewpoint of a Nonprofit Organization

In recent years, in Japanese society, the "social enterprise" attracts attention. In this social enterprise, both "profits" and "missions" are the objects which should be pursued, and simultaneous achievement is called for. A social enterprise needs a management which realizes both "profits pursuit" and "missions pursuit."

As stated previously, this paper considers the relation between profits and missions through the comparison of a company, a nonprofit organization and a social enterprise.

Firstly, some points of argument about a nonprofit organization are surveyed. These are, for example, the problem of the term of a nonprofit organization, the problem of the range of an organization, the feature of the contents of activity, etc.

Next, we will examine a social enterprise. Here, I explain that the breakdown of a welfare state is the background for which a social enterprise gains power. The example of Britain, the United States, and Japan is given and surveyed. Then, the systematic feature of a social enterprise is surveyed.

From the above considerations, we compare a company, a nonprofit organization, and a social enterprise, and consider the figure of the management which thought the relation with society as important. In there, the former-view which grasps "profits pursuit" and "missions pursuit" as a confrontational concept is denied. And I propose a new view which grasps "profits pursuit" and "missions pursuit" as an compatible concept.

Finally based on the above considerations, we consider the relation between a company and society, and the relation between a nonprofit organization and society.

About the relation between a company and society, we observe "SRI" which attracts attention in Europe and America in recent years. "SRI" can change the character of the "capital" for profits pursuit. If it is made such, a company also has to consider a relation not only with economical efficiency but also with society.

And, about the relation between a nonprofit organization and society, I consider that it is important to get a profit and maintain the organization in order to continue pursuing missions. Because, though it is a good nonprofit organization, if an organization is not sustainable, a relation with society is unsustainable.
From the above considerations, in this paper, I propose a management style which pursues both "profits" and "missions" whether it is a company or a nonprofit organization. If a concept of "management" is grasped from the dual viewpoint of "profits" and "missions", I will think that we can find out the figure of new corporate management, and the figure of new nonprofit organization management.
I Globalization and anti-globalization

1 What is globalization?
Globalization is the process by which people’s lifestyles become more socially and economically interdependent. If we broadly perceive this as the interchange between civilizations, we can trace it back to the depths of human history. This history of exchange between civilizations has clearly enriched societies over the years, but the globalization we are witnessing today, in which interdependence grows ever stronger, is in a sense developing into an unfair process. Conflicts between countries and regions with differing cultures and degrees of economic development, such as the North-South divide, are examples of this inequality.

This has led to two starkly contrasting schools of thought about the merits of globalization - the hyperglobalists and the globalization skeptics. The hyperglobalists believe that the creation and expansion of a new commonality amongst civilizations, and economic expansion, are inevitable. The globalization skeptics point to the expansion and worsening of political, economic, social and cultural disparity.

2 Behind anti-globalization thinking
Global businesses are forging ahead with the transfer to the world's market of human resources, goods, capital and information. This process often leads to conflict with the society of the recipient nation. The reasons for the emergence of such conflicts are
discussed in this paper, in relation to the issues of 'the global divide' and 'the essence of corporate social responsibility'.

The global divide is the gap that emerges as a result of the arrival of a market economy, a process inherent in globalization. Global businesses see the weaknesses that arise from this disparity as business opportunities, thus further exacerbating the gap, and in turn increasing the momentum of anti-globalization sentiments among society.

The essence of corporate social responsibility is a question of how fairly they use the corporate might that they have gained through their growth, it's a question of whether or not they protect human rights, increase employment, improve working conditions, and nurture human resources. It's a question of whether or not they protect the environment and behave in an ethical manner. Solving these sorts of social responsibility issues cannot always be adequately achieved by leaving them to the initiative of the companies in question. Can global businesses be governed? The answer to this question requires an examination of the relationships between business and society.

II Potential and limits of corporate governance

I Corporate governance through the market
The functions and mechanisms of the market govern the behavior of companies. Classical economic theory tells us that if the market's mechanism is functioning, businesses' pursuit of private profit become a way of achieving profit for the public at large. In other words, under a laissez faire system, led by Adam Smith's 'invisible hand of God', only that which is excellent and required by society survives, thus resulting in a more affluent and harmonious society. The pursuit of private profit and the achievement of public profit - a couple of matters that at first appear to be in conflict with each other - are simultaneously achieved through the mechanisms of the market. Each business is controlled by the external forces of the market, and as long as the market is functioning correctly businesses are automatically governed to proceed in the correct direction. The reins of power are in
the hands of the market, not of individual businesses. The corporate governance function possessed by this type of market mechanism is described in this paper as 'the logic of the market'.

It is currently the neoliberals and hyperglobalists who are asserting the potential of the logic of the market; their ideals can be condensed into the keywords of 'free', 'fair', and 'global'. The freedom sought by the neoliberals is competition in a market as free as is possible from regulations, and the 'fairness' that they expound is the fairness of competitive conditions. In other words, businesses seek freedom, society seeks fairness, and the market, as a place of competition, seeks an order in which both freedom and fairness are maintained. But this requires that the freedom sought by businesses is underpinned by morality, and the fairness sought by society is underpinned by regulatory power or rules and surveillance. As long as society's regulatory power arises from a healthy democracy, and freedom and fairness are balanced by the public entity of the marketplace, businesses can be adequately governed by the market.

2 Corporate governance through stakeholders

Corporate behavior is governed by its stakeholders. The stakeholder approach consists of two theories - one in which the shareholder is all powerful, and one in which 'stakeholders' are defined in a more narrow sense; the latter includes society or community. The question is, can society or communities govern businesses and make them carry out their corporate responsibilities?

As businesses develop into increasingly larger organizations, their management becomes reliant on the management skills of salaried professional managers. This results in it becoming difficult for the logic of the market to directly govern these managers using the authority it has earned. It is at this point that the stakeholder approach emerges.

The stakeholder approach seeks to put bloated corporate authority back under the logic of the market and control it. The shareholder power theory seeks to achieve the efficiency assured by classical economic theory through the pursuit of private profit. In
order to achieve this, the senior management of large corporations are given stock options, providing them with an incentive to pursue profits as shareholders. This leads them to shift the emphasis of their management to the maximization of shareholder value.

However, a situation in which only shareholders and senior management are happy is not necessarily the best management method from the point of view of corporate growth. If companies fail to manage their relations with the vast array of stakeholders surrounding their enterprises, they will not be able to achieve growth or maximized profits. This is where the adjustment of the interests of stakeholders other than shareholders starts to become essential. However, it is clear that this adjustment in interests pursues improvements in efficiency through competition under the logic of the market.

The problem is that 'society' is included among the stakeholders that are part of this competitive relationship. Society provides an array of infrastructures for corporate activity, and accepts corporate activity within the community. Businesses seek to coexist with society by being good corporate citizens, and accepting local sets of values and social rules about standards. But society is also liable to be exposed to the negative aspects of corporate activities. They are threatened with the destruction of the stability of their livelihoods and communities, and changes to social rules concerning the values and standards of those communities. Society starts to ask about the legitimacy of large corporations in such cases. And it is at this point that the question of corporate social responsibility starts to be debated.

Nevertheless, it is not necessarily fair to designate society as a stakeholder and then discuss corporate social responsibility, because 'society' is quintessentially very different from any other kind of stakeholder. Other stakeholders demand that the market is the 'place' for adjusting different interests - but society is 'outside' of the market. So if society is explained according to the logic of the market, it has to be said that there are innate limitations to the stakeholder theory. Society's demands for businesses to fulfill their social responsibilities must be made through 'the logic of society'.

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III The need for corporate governance through society

1 The self-regulating market and society

The market and society hold sets of quintessentially different value criteria, and function under different theories. It was Karl Polanyi who first clarified the conflict between these two value criteria. According to Polanyi, the self-regulating market is formed on the basis of the motivation of interest, and is created by a mechanism in which labor, land and capital are turned into goods and regulated by the market price. Once this mechanism starts to work, the market functions independently and without any external interference. The result of this is that economy and society are cut off from each other and a new organization of economic life take place. 'Self-regulation' means the organization of economic life in a manner that is quite independent of society. Prior to this stage, it is said that 'the economy is embedded in society', or in other words, the economy is still governed by society.

This sort of debate, in a largely unchanged form, is still being carried out today. Peter F. Drucker, for example, juxtaposes society (community/family) with the organization. The constituent members of the organization live within the community, use the language of the community, send their children to the community's schools, and settle down and reside inside the community. But the organization itself is not allowed to become immersed in the community; the organization's culture has to surpass that of the community. The organization creates unrest in the community, unbalances, and eventually dismantles the community. The organization (company) borne out of society, whilst treating society as its bedrock, must also inevitably come into conflict with that society.

Francis Fukuyama has theorized about the dialectic rivalry between the market and the community concerning trust goods. Trust goods are social capital that exert a considerable influence on the development of capitalism. If there is a bedrock of trust in the society, transaction costs will be greatly reduced. On the other hand, if there is no such trust then the creation of organizations and their expansion will not proceed smoothly, and
even if an organization does become large it will have to be controlled by yet stricter regulations - and harbor a rigidly bureaucratic character. The costs of running the organization naturally become higher. However, what should be remembered here is that it is the efficient organization, arising from the bedrock of the trust goods that society possessed, that expands the boundaries of the market. As it expands, the efficient organization goes on to erode the domain of the community, and sever the mutually sustaining ties that create communities. During this stage of transition, the community weakens and individualism becomes endemic, a process that leads to the loss of trust goods.

This is how the market and society, or the company (organization) and society function under quintessentially different logic resulting from the development of the capitalist economy. It can be said that the logic of the market and the logic of society have started to diverge.

2 The massive growth of corporate power and loss of altruistic functions
It can be said that it was mainly the expansion and growth of businesses (organizations) that encouraged this divergence between the market and society. Businesses are forced to compete by the market, so they pursue economic scale and technological innovation in order to achieve competitive advantage. The net result is that the size of the organization increases as an unavoidable consequence of economic development, and businesses that monopolize the market begin to emerge. Corporate organizations that have become very large start to be managed under the logic of bureaucratic organization, and this growth in scale is accompanied by yet more power. This in turn leads to the legitimacy of the organization's use of its power being called into question, and generates mistrust and criticism from society at large.

There are good reasons why the organization becomes mistrusted by society, and its legitimacy is called into question in this manner. This is the problem of the loss of altruistic functions provided by the free market.
Contrary to Polanyi, who clarified this historic establishment, classical economic theory enthusiastically endorses the self-regulating market. This is because it was shown that the mechanism therein enables the simultaneous achievement of both private profit and public profit, and provides an altruistic function. However, as corporations become larger, so does their power, and the altruistic functions provided by the market evaporate. If the market mechanism that was thought to contain an altruistic function and which was the foundation of classical economic theory starts to collapse, the proof that there was legitimacy in corporations that pursue their own interests also disappears. And this leads to the whole social significance of large corporations being called into question.

3 Corporate social responsibility
One cannot discuss the market and society on the same dimension; stakeholders other than society pursue their interests according to the logic of the market and thereby may draw close to a certain level of satisfaction. But under increasingly bloated corporate power, the myth of the 'public interest' collapses and passes away, and with it the benefits to society. Thus, having clarified the limits of the market's mechanisms, there is a need for businesses themselves to create a new system of altruism. Corporate social responsibility is unlikely to be adequately carried out in the absence of societal demands and systems for fair business.

IV Business and society in the era of globalization

1 The relationship between business and society, and anti-globalization
Market mechanisms became cut severed from society with the arrival of the self-regulating market, and whilst a situation in which they compliment each other has to some extent been created, the market and society have started to function according to quite different reasoning. However, the allure of affluence and technological progress force the expansion of the boundaries of the market, and the erosion of the social domain continues. The
permeation of neoliberalism has served to spur on this expansion of the market. Nonetheless, whether the relationship between the two consisted of the market being embedded in society or vice-versa, they are in effect a single body that cannot survive independently.

The world's markets were transformed into a single standardized global market following the collapse of the socialists' planned economy. It is, of course, Anglo-Saxon-style capitalism, the proponent of neoliberalism, which has played the leading role in the spread of globalization. America is its Mecca: there, the mutually complementary market and society that were functioning in an orderly manner were split into the two entities of market and society, and the market only transferred to other economic regions (supported by other civilizations or cultures).

The global market seeks to create a new mutually complementary relationship with the host society. But it is possible that friction and clashes occur between the global market and the host society. Because the systems and organizations that constitute societies are inherently different according to the local culture, and they do not easily adopt to globalization, leading to a severe process of selection. This is where the momentum for anti-globalization sentiments begins to gather pace.

2 The governance of global businesses: the path to a society of global citizens

As competition grows fiercer, the possibility that global businesses will act in a manner that goes against the rules of society increases. Examples of this include the use of child labor, or the exploitation of weak regulations to pollute the environment during the manufacture of products. Obviously, the social responsibilities of global businesses must be called into question in such cases.

The question of social responsibility was made clear by society through the questioning of the legitimacy of corporate behavior, under the logic of society. But the numbers of people with a social conscience, people who can demand legitimacy, are in decline.
Fukuyama suggests that individualism is endemic in contemporary society. This is resulting in the diversification of values, a spreading mistrust of authority, and a virtual trivialization of individuals who have a social conscience is taking place. Robert B. Reich argues that since the use of information has started to fill every corner of our lives, society has become able to repeatedly make valuable or correct choices, resulting in the functioning of what he calls a 'sorting mechanism' that creates a rich-poor gap structure. When the human desire to lead a comfortable life becomes part of this sorting mechanism, it leads to communities splintering and changing into groups populated by people with similar interests. None of these groups, however, seek the human ties that people in the previous communities did, and a type of social relationship that does not place any burden on the participant members is created. Naturally, people who care about society start to decrease.

Fukuyama and Reich both happen to discuss the progressive shrinking and trivialization of society, reflecting the weakening of the logic of society. But it is only society that can demand that businesses exercise social responsibility. Where can we find, or build, the logic of society in the globalizing society?

As the above discussions clearly show, the market is essential as an efficient producer and distributor of goods and services. Without it there is little prospect of leading an affluent life. But competition within this market forces businesses to be efficient, and encourages the creation of huge corporations. Finally, it leads to the extinction of the altruistic functions provided by the market. Consequently, the logic of society has to be related to mechanisms that force big business to carry out their altruistic functions once again.

It is desirable that there should be as many different ways of achieving this as possible. George Soros's 'open society' is one such idea. It is also vital that the NPOs and NGOs that have sprung up in recent years are put to good use. Through all sorts of activities such as these, it will be feasible to build up a bedrock of mutual trust as global citizens, revitalize society once more, and make the logic of society function. This sort of
society and this sort of logic of society will exert an influence on the senior management at the axis of big business's power, and will probably exert them into carrying out their corporate social responsibilities.

References
Chapter 14

Sustainable Development and Corporations

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Preface

Mass production system and mass consumer economy grew very quickly and on a huge scale in the 20 century, but at the same time a serious waste of economic resources was brought about. Today, at the beginning of the 21 century, as a surveillance network for the waste of economic resources and an assessment of the global environment are becoming louder day by day, reflection and criticism for mass production systems and a mass consumer economy is gradually but steadily rising.

It is an important modern feature that the above-mentioned movements are progressing in liaison with Non-Governmental Organization (NGO) and Information Technology.

A social background of a controversial theory of sustainable development is involved in the above-mentioned movements. A design for a sustainable society means a design for a new economic system in the 21 century and for new economic order or a new ethics reference for several industries and companies.

Now, most industries and companies are faced with a decline of consumption especially in the huge market of developed countries. Therefore, competition for market share in the world main market is very severe day by day, and at the same time, multinational companies are starting to enter new business areas and to create new markets. It is just a full-scale entry to developing countries.

A controversy and investigation of sustainable development implies at least the analysis of economic and social effects for developing countries in being affected by the
global market strategy of multinational companies.

In this article, we make a study of the corporate missions of modern society with sustainable development or a design of sustainable society. These modern corporations and their business model are a main actor in realizing and designing a sustainable society in the 21 century.

I A key statement of sustainable development: The Brundtland Report

In the 1980s, increasing concern about the effects of economic development on the environment led the World Commission on Environment and Development of the United Nations to publish the Brundland Report in 1987.

Sustainable Development is “development which meets the needs of the present without compromising the ability of future generation to meet their own needs,” according to the Brundtland Report, known as Our Common Future from the United Nations.

Thus, the Brundtland Report is the definitive source for the understanding of sustainable development that economic development could be sustained without depleting natural resources or harming the environment.

The Brundtland Report was primarily concerned with securing a global equity, redistributing resources towards poorer nations whilst encouraging their economic growth. The report also suggested that equity, growth and environmental maintenance are simultaneously possible and that each country is capable of achieving its full economic potential while at the same time enhancing its resource base. The report also recognized that achieving this equity and sustainable growth would require technological and social change.

It is the most important thing to answer the following questions: Who are our in Our Common Future? How big is the sphere of our sustainable society? Of course, we think that our sustainable society includes developed countries blessed with a consumer-oriented society, and also developing countries lacking the necessities of life, in other words, rich
nations and poor nations.

The cooperation of both countries and nations is the first step towards a solution on the problem of sustainable development in the world.

II The interdependence of the three economic spheres and corporations

Stuart L. Hart, director of the Corporate Environmental Management Program at the University of Michigan Business School, wrote on the social responsibility of modern corporations for sustainable development in his article “Beyond Greening: Strategies for a Sustainable World.”

According to Hart, beyond greening lies an enormous challenge – and an enormous opportunity. The challenge is to develop a sustainable global economy: an economy that the planet is capable of supporting indefinitely. Although we may be approaching ecological recovery in the developed world, the planet as a whole remains on an unsustainable course.

However, in modern society, corporations are the only organizations with the resources, the technology, the global reach, and, ultimately, the motivation to achieve sustainability. Whereas yesterday’s businesses were often oblivious to their negative impact on the environment and today’s responsible businesses strive for zero impact, tomorrow’s businesses must learn to make a positive impact. Increasingly, companies will be selling solutions to the world’s environmental problems.

Hart stated that to move beyond greening to sustainability, we must first unravel a complex set of global interdependencies. And so, he said, the global economy is really three different, overlapping economies: market economy, survival economy and nature’s economy.

The market economy is the familiar world of commerce comprising of both the developed nations and the emerging economies. About a billion people – one-sixth of the world’s population – live in the developed countries of the market economy. Those affluent
societies account for more than 75% of the world’s energy and resource consumption and create the bulk of industrial, toxic, and consumer waste. The developed economies thus leave large ecological footprints – defined as the amount of land required to meet a typical consumer’s needs.

The survival economy is the traditional, village-based way of life found in the rural parts of most developing countries. It is making up of 3 billion people, mainly Africans, Indians, and Chinese who are subsistence oriented and meet their basic needs directly from nature. Demographers generally agree that the world’s population, currently growing by about 90 million people per year, will roughly double over the next 40 years. The developing nations will account for 90% of that growth, and most of it will occur in the survival economy.

The nature economy consists of the natural system and resources that support the market and the survival economies. Nonrenewable resources, such as oil, metals, and other minerals, are finite. Renewable resources, such as soils and forests, will replenish themselves – as long as their use does not exceed critical thresholds.

Hart concludes that the interdependence of the three economic spheres is increasingly evident. In fact, the three economies have become worlds in collision, creating the major social and environmental challenges facing the planet: climate change, pollution, resource depletion, poverty, and inequality.

III Theoretical meaning of production and consumption in the Protestant Ethic

According to Sandra B. Rosenthal and Rogene A. Buchholz, Max Weber sought to provide the first comprehensive explanatory model of the role of the Protestant Ethic for the growth of capitalism and the capitalistic economy in the sixteenth and seventeenth centuries. The heat of Protestant Ethic was a worldly asceticism. Thus people were to work hard, be productive, and accumulate wealth, but that wealth was not to be enjoyed or in
lavish consumption. Consumption was curtailed in the interests of creating capital wealth. In this meaning, The Protestant Ethic provided a moral foundation for productive activity and legitimized the pursuit of profit and accumulation of wealth on the part of those who worked hard and invested their money wisely.

However, a gradual conceptual shift arose in understanding the capitalistic economy and its activity. The pursuit of self-interest changed from the accumulation of wealth to a search for pleasure and psychic survival. This conceptual shift has been characterized as a shift to a culture of hedonism concerned with fun, play, display, and pleasure. Thus the cultural justification of capitalism has become hedonism of the present moment.

According to Sandra B. Rosenthal and Rogene A. Buchholz, the theoretical meaning of production and consumption in the Protestant Ethic is as follows.

Embedded in the Protestant Ethic is the moral imperative both for the maximization of production and for the minimization of consumption. The new ethic thus pressured equally toward effective production and efficient consumption, which while sustaining maximum productivity also maximized savings and potential investment capital. Perhaps even more significant is the fact that while the Protestant Ethic contained a moral limit on consumption in the interests of generating more economic wealth and building up a capital base to increase production, it made production of this wealth an end in itself. (Rosenthal, Sandra B. & Buchholz, Rogene A., p.73.)

**IV Production and Marketing: Ford Production System and GM Marketing Strategy**

The logical thinking of sustainable development criticizes mass consumption with a mass production system and its capitalistic economic structure. However, mass production system and mass consumption are not worked as one body. Mass production wastes often huge economic resources, but, on the other hand, from it arises economic and managerial innovative activities. According to the above-mentioned Protestant Ethic framework, we
have to distinguish effective production from mass consumption activity.

In the following sentence, we make a study of the relationship between the mass production system and mass marketing activity in the famous American automotive industry’s case on comparative analysis of competitive strategy about Ford and GM.

A.D.Chandler,Jr wrote that, to meet the still relatively new mass market, Henry Ford had to pioneer in the way of modern mass production. In his constant quest for ways to improve and to speed up the manufacturing and assembly processes, it became Ford’s basic principle to take “the work to the man” instead of “the man to the work.” First he and his associates devised a “line-production system” – that is, the placing of machines and men in a carefully planned sequence of operations. Next came the development of conveyors, rollways, and gravity slides to bring materials regularly and smoothly to the assemblers. Finally, in the summer of 1913, the Ford engineers began using a moving assembly line.

An important idea was that of the lightness of the motor vehicle, bringing about economy in operation by the owner. Analysis of a light but strong value strip stem taken from a wrecked French racer in 1905 resulted in the discovery that the material contained vanadium. No steel maker in America at that time knew how to make vanadium steel and a man with such knowledge was imported from England. With steel of such tensile strength, parts could be made lighter and yet be sturdier than parts made out of ordinary steel. Simplicity of design and accessibility of the engine, frame, axles, etc., were important for the purpose of minimizing repair costs when repairs were necessary. Sturdiness of design resulting in a durability, so as to assure a long useful life and to economize first cost, was an important part of the idea. Ford’s policy and practice was to carry on research for the purpose of improving the structure of the product and the processes in fabricating it so as to increase the economy to the owner and to reduce the price. Price reductions, Ford stated, should be made because of the economies achieved in manufacture, not because of public dissatisfaction with the product.

However, the automobile industry in America had entered into the second stage of
its history – that of competition rather than growth. Marketing now became a greater challenge than production. The underlying marketing problem was no longer to sell an individual his first car but to get the man who already owned one to buy a new car. And management became a greater challenge than finance. Effective coordination, appraisal, and planning were essential if costs were to be kept down and the market was not to be oversold.

Chandler wrote that Henry Ford refused to take seriously these fundamental changes in the market. Having survived the crisis of 1920-21 by relying on his suppliers and dealers, he moved into the new period with full confidence in his old strategy.

However, the hackneyed planning and public dissatisfaction with products by the GM marketing strategy are not justifiable in comparison with the above-mentioned Ford’s thought on his production and market.

Un-equity between production and consumption and Symbiosis Management

The rapid growth of the modern consumer society with market creating and satisfying a desire for goods and services is limiting the sphere of developed countries.

According to the United Nations Development Programme (UNDP), of the 4.4 billion people in developing countries, nearly three-fifths lack basic sanitation. Almost a third have no access to clean water. About a fifth does not have enough dietary energy and protein. Micronutrient deficiencies are even more widespread.

Inequalities in consumption are stark. Globally, the 20% of the world’s people in the highest-income countries account for 86% of total private consumption expenditures – the poorest 20% a minuscule 1.3%.

Developing countries are eliminated in favor of a modern consumer society. Many people in developing countries are not only eliminated from the modern economic system, but are also being confronted with environmental pollution to their living conditions that arose from a waste of economic resources in developed countries.

The unequal structure of consumption between a developed country and a
developing one is the most important issue for modern social science. However, how do we solve it?! How should we consider a solution to this problem?

C.K. Prahalad commented on the possibility and radical improvement of economic development at the bottom of the economic pyramid by the business power of Multinational Companies (MNCs).

Everyone knows that the world’s poor are distressingly plentiful. Fully 65% of the world’s population earns less than $2,000 each per year – that’s 4 billion people. But despite the vastness of this market, it remains largely untapped by multinational companies. (Prahalad, C.K., p.49.)

Thus, the scope, scale, and supply-chain efficiencies of multinational companies contribute to a relaxation of extreme poverty and economic development, but, on the other hand, the creation of new markets, operation efficiencies, and the chance of business innovation are being brought by MNCs.

Prahalad argues that the informal economies at the bottom of the economic pyramid are full of inefficiencies and exploitive intermediaries. When MNCs provide basic living at the bottom of economic pyramid and they make people poor.

For one thing, big corporations should solve big problems – and what is a more pressing concern than alleviating the poverty that 4 billion people are currently mired in? It is hard to argue talent within leading multinationals is better allocated to producing incremental variations of existing products than to addressing the real needs – and real opportunities – at the bottom of the pyramid. (Prahalad, C.K., p.57.)

The above-mentioned insistences by Prahalad are in perfect harmony with a market-driven paradigm. However, this market-oriented concept has to be asked about ethical concerns or the legitimacy of modern business itself. Will business by modern corporations actually be in harmony with the real needs of developing countries? Will modern corporations actually live in symbiosis with developing countries? Finally, will we actually design a symbiotic relationship between business and society?
References
Conclusion

The Perspective of Contemporary Corporations and Society:
Divergent Markets and Society

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I. Viewpoint of Comparative Business Administration

1. Comparative Business Administration Approach

Business administration studies focuses on business organization and management activities. In modern society, the firm, especially the joint stock company, has a major role in economic activities and firms have complicated organizations, institutions, and behaviour. This book examines the idea that firms should be understood in the context of the economic system and in relation to society. All the contributors have an interest in the fundamental approach “the comparative business administration” in common.

How do specialists understand the comparative business administration approach? One of the contributors in the book, Richard Whitley, discusses the analytical framework by comparative business system dynamics, and points that there exists multiple business system types (Whitley, 1999, pp.34-44). The business system type can be divided and classified by ownership coordination (the primary means of owner control, the extent of ownership integration of production chains and the extent of the ownership integration of sectors), non-ownership coordination (the extent of alliance coordination of production chains, the extent of collaboration between competitors and the extent of alliance coordination of sectors), employment relations and work management (employer-employee interdependence, delegation to, and trust of, employees), as follows: 1) the fragmented business system with low levels of ownership and non-ownership or
alliance coordination, 2) coordinated industrial districts with low levels of ownership integration and with more extensive inter-firm integration, 3) compartmentalized business systems with low levels of cooperation between firms, 4) coordinated or collaborative business systems with extensive alliances between them. The business system characteristics do not change quickly in the long run. But, “significant change in these characteristics clearly involves considerable restructuring of economic relationships and typically requires substantial institutional reforms of the kind associated with the Allied occupations of Germany and Japan after the Second World War or the transformations of the former state socialist societies. Even in these cases, substantial continuities in many aspects of economic organization remain.” (p.44)

Business systems seem to be influenced by the two trends: the trend towards the diffusion of the complexity of institutional changes and the trend towards conversion (to the liberal Anglo-Saxon type) or hybridization “as the coexistence of multiple orders or regimes within one overarching national regime” (Lane, 2004, p.84). While the number of emphasizing institutions is increasing, the national business system characterizes the divergent capitalist systems with changes of many social subsystems of institutions such as inter-firm networks and the institutional complementarities.

In the comparative business administration approach, a bundle of institutions concerning the firm, society and human relations to the institutions can be typified in the contexts of globalization and the characteristics of the economic system, by the region and the nation, and by the time, and the firm and management can be theoretically and empirically analyzed through investigating the differences and similarities of the institutional constellation. In short, the comparative business administration approach can be viewed as the analytical method on the tasks: how do firms relate to the society? and how does the change of society influence the firm in the multiple economic systems and with the passing of time?
2. State-Enterprise Interrelation

When it comes to the relation between the firm and society in Capitalism, we have a crucial problem: Is the free profit-seeking behaviour of the firm compatible with the social welfare? Particularly in the 1990s, liberalization of international financial markets encouraged liberal market capitalism, and the firm seemed to drastically change its activity and its harmonization with society. Many firms have caused corporate scandals day after day. Corporate scandals include negligence of safety for cost reduction and a lack of business ethics and concealment. The scale and number of scandals looks to be escalating. As far as scandal has made screening in the firm dysfunctional, business administration, decision making process, and the interests’ coordination channel of stakeholders have become the main cause of the scandals.

Among the scandals, the window-dressed account and insider transaction are connected directly with the business system and the economic system. The “Enron” scandal in 2001 USA, or the “Livedoor” scandal in 2006 Japan have posed the question of what the market system should be or the firm should be. Not all stakeholders have sufficient business ethics to keep laissez-faire by deregulation, and chaotic free markets cannot be sustainable. In the case that the greedy becomes a winner and the high-minded entrepreneur is obliged to exit, the spirit of capitalism (by Max Weber) will get into adverse selection.

The gamble of capitalism has been criticized as a hotbed of scandals, and even the joint stock company is severely criticized. Under the corporate scandals, the comparative business administration approach has an advantage because it examines the firm through dynamic and diversified viewpoints.

II. Convergence and Divergence of the Business System

1. Viewpoint to Business

“Who owns the firm?” is an old and a new problem. Concerning this problem, Iwai (2005)
The Perspective of Contemporary Corporations and Society

divides company (corporation) and firm, emphasizing the specific existence that “the company is a thing dealt as a person, though it is not a person but a thing”. The joint stock company consists of dual structures: one is the structure that shareholders own and another is the structure where managers control and manage the company’s assets. The former means that the company is owned as a thing, and the latter means that the company behaves as a person. As a result, as the shareholder sovereignty (the company is owned by shareholders) expresses only one aspect of firm organization, shareholders cannot do just as they want to. The firm cannot ignore the representative stakeholders (managers and employees), and the nation, the region, the history, the cultural background, ideology and economic efficiency all influence the balance of the dual structures. Moreover, as the relation between managers and the firm is based not on contract but on confidence, managers ought to manage ethically.

Seen from dual structures and confident relations (motivation), the firm (company) can be divergently divided and classified. Even though globalization is becoming widespread with the Anglo-Saxon type as the global standard, state-society interactions are not a homogeneous entity. Part 1 of the book analyses diversity in detail.

From the viewpoint of the variety capitalism approach, the corporate governance determining managers’ behaviour has its own institutional forms (Cernat, 2006). The typical market capitalism form is the Anglo-Saxon type, which has the following main characteristics: short-term profit-oriented behaviour, individualism, shareholder sovereignty, dispersed shares, limited employee influence, and others. This model is based on the free market and competition, and shareholder sovereignty becomes the typical decision making rule. The second is the continental model, and is characterized by coordination between the state, trade unions, industry associations, regulations, profit-seeking in the long run, banks and corporations as shareholders, and stakeholders. This model can be regarded as the typical welfare state, and has diversified patterns in itself. The third is the developmental model, and is characterized by the state’s influence, industrial hierarchical organizations and others. Therefore, this model is considered as
network type capitalism (organized capitalism), and in Japan and Korea (East Asia) this model has been formed.

Concerning the models, there are two views: convergence and divergence. Simply speaking the convergence view, the view that the firm has changed from public ownership and social regulations to private ownership and individualism (Figure 15-1), as well as the transformation in the former socialist countries can be included in the trend. Globalization and regional integrations, enlargement of the EU and Europeanization have brought about the change. Merger and acquisition, and oligopoly have been strengthened by globalization, in the formalization, deregulation, and activation of investment funds. The financial and securities markets have enlarged beyond the boarder and the commodity, and corporate governance of the shareholder sovereignty type is regarded as an indicator of convergence. Under the liberal ideology (market fundamentalism), competitive environment, globalization and transnationalisation, and formal and legal institutions have shown the convergent trend.

As for the socialist enterprises, we can adopt the above approach. In short, the enterprises can be viewed in the context of ownership and management. In the context of ownership, the state enterprises were owned by the government as a thing. In the case of management, the directors managed the enterprise as representatives.

2. Socialist System and Transformation

As far as nationalization is the main pillar of socialism, the enterprises were easily regarded as a thing, and the state has a dominant position. In fact, the Constitution of USSR in 1977 determined the social economic base and the state ownership was determined as a common property of the Soviet people and as a fundamental form of socialist ownership (Article 11). It is natural that the bureaucratic deputizing in the socialist system was criticized because of a dead letter state ownership. The agent did not behave as the principal wanted. In the cases of ownership and management (dual structures of the enterprise), it is a mistake to investigate the enterprise from the only one aspect,
ownership. According to the provisions on the Socialist State Industrial Enterprise in 1965 of USSR, the state has no responsibility to the contracts of the enterprises (Article 9). Based on this provision, the owner is not responsible to the enterprise, and we cannot determine the enterprises by the only benchmark, ownership.

The socialist enterprise was similar to the corporate company in the market economy in practice, and it concluded the contract by itself. According to the above provision, the socialist enterprise is “a corporation which carries out production and management activities, implements a contract, fulfills its own activities and its rights, and has the balance sheet independently.” (Article 2) In short, the management aspect determines the enterprise’s position, and not only the directors but also labour groups (the Constitution of USSR, Article 8) or employees (the Constitution of Poland, 1976) are influenced as a stakeholder. Therefore, even in socialist enterprises, the confidential relation of directors (agents) is essential, and the Socialist system did not succeed in forming managers and workers with ethics.

In the case of classification in capitalism by dual structures, the socialist enterprises can also be divided into the following types: the state (bureaucrats) ownership sovereignty model, the market and management participation (economic reform) model, and the network model. The latter two models were based on business administration and management. The difference from the socialist enterprises’ types has functioned on the choice of the firm model in the transformation. In almost all the transition countries, insiders have strongly affected the management, which can be regarded as the adaptation process of the socialist enterprise model. Particularly, the third type has been referred to as a Clan type with networks, and such a personal linkage can be observed in Eastern Europe. Thus, social capital has become the growth source after the transformation, and the ownership context must not be overrated.

The transformation involved privatization and marketisation, and the change illustrates the same trend as the capitalist system in Figure 15-1. As for the corporate rule, the law on joint stock companies changed into the Anglo-Saxon type, and the newly established
owners and managers are much more interested in ownership. The east European countries experienced prior integration to the EU, and legal adaptation also became a necessary condition for the integration. At the very least, the corporate legislative institutions show hybridization and convergence.

The transformation, however, has made clear that the corporation society does not always change through legislation. The enforcement of law is not guaranteed by implantation of the law. Europe has the social European view and this is regarded as a reason why the Continental model does not converge to the Anglo-Saxon model. Moreover, all the transition economies have an experience of socialism in common, and the fundamental requirements like the region, history, and culture have created specific features of the firm model. The network may remind us of the specific model which is similar to the development one. The transformation process includes path-dependency and the embeddedness of the features in the firm and institutions, and the former owners and stakeholders have kept their influence in the transformation.

As for the development type, convergence to the Anglo-Saxon type is not obvious. The sustainability of the Japanese management system, including lifetime employment, seniority system and an enterprise union, was criticized in the 1990s. In practice, the Japanese corporate laws were revised towards convergence. However, it is said that the Japanese business system has shown its sustainability, because the Japanese firms have taken over the national genetic factor in values and because of the Japanese philosophy of humans and work (Hino, 2003). Although the Japanese had received intense criticism in the negative aspects (e.g. mutual shareholdings, opaqueness of responsibility) in the period of recession in the 1990s, many Japanese firms have thought highly of the business institutions and like the long-term employment and training system (Nihonkeizai newspaper, 10 February 2006). Superficially, the trend of convergence is irreversible in globalization, the diversification trend cannot be ignored.
III. The Social Norms of the Firm

1. The Social Norms

How can we judge the balance between convergence and divergence? Why do some countries take priority over ownership (shareholder sovereignty) as the Anglo-Saxon type? Why do some countries like Japan give priority over administration? In parallel with the optimistic view that efficiency and competition pressure compel the firm to converge at the shareholder sovereignty type, the corporate institutions have kept their complementary and have kept even inefficient institutions (Gordon and Roe eds, 2004, pp.27-28). In short, the national character, culture and history have brought diversity, and the key point of diversification lies in the pattern of institutions in society and in social values. The second part of the book focuses on this point. R. Dore (2006) raises political values and motivation as a key moment of judgment, which relates the social norms like equality.

Generally speaking, the social norms also move to efficiency and converge superficially. Market fundamentalism and neo-liberalism change the social norms from equality and safety to gaps and risk (Figure 15-2). The social nature of the people seems to decline. Criticism to community, collective values and egalitarianism, a decline of solidarity in family, enterprise, trade union, region, and the society have lead to individualism and liberal values, in spite of a lack of individual ethics. As the social policy loses sympathy, individual self-responsibility seems to be overemphasized. The move to the liberal market and deregulation strengthens competition among economic actors, and intensifies economic gaps and risk.

The social norms, however, are indispensable in order to keep a sustainable society. In Europe, though social principles are subordinate to economic (efficiency) principles, employment, welfare, and environment are highly valued and they regulate the companies visibly and invisibly.

Japan has drastically faced the upset of the corporate society. The lifetime employment does not work sufficiently and the number of inactive or unemployed persons has
increased. Japanese does not have a common value of work different from the period of the rapid economic growth in the 1950-1980s. However, Japan has not lost completely its own values. J. Abegglen (2004) insists as follows: “Does the Japanese employment system change? Fundamentally, it does not change. The basic values constitute the base even now. …The changes (an increase of a temporary employment, a decline of seniority system, a decreasing role of trade union and others) are not the shift approaching towards the European-American model. They are the shift adapting to the changing environment, keeping the fundamental values and customs, which support the strengths of the Japanese management.” (pp.140-141)

2. CSR

Corporate social responsibility (CSR) is also closely connected with the social nature of the people. CSR is the social responsibility which becomes an instrument of profit maximization in the long run, and it requires the maturity of the civic society (Iwai, 2005). Corporate scandal means not only a lack of ethics but also a problem of the social nature.

Moreover, the global ecological problem has raised the social norms for the economic system’s sustainability. In order to protect the environment, this new sympathy is necessary, and the company cannot survive without its harmonization with the environment. This environment protection created new economic organizations such as the NPO and NGO, and the profit-seeking and competition principles do not always become the fundamental rule there.

A response to globalization also goes with repulsion to liberalism. The intense international competition has strengthened the international economic disparity and intensified the friction between developed capitalist economies and the developing countries. The global economic rules do not always satisfy the interests of developing countries, as the negotiation of the WTO indicates. Transnational companies must adapt to such complicated interests. Poverty and development call for international sympathy and social norms and the new firm model cannot be built without ignoring social norms.
In order to investigate the firm and institutions in contemporary society, not the narrow view of the company system but the comparative business administration approach gives us the possibility to build the theoretical framework. The book investigates comprehensively not only the variety of markets and corporate institutions, but the behaviour and the social norms of the economic actors.

References
Appendix

Japan Association for the Comparative Studies of Management (JACSM)

Yutaka Konishi (Gifu University)

I. General Description

The Japan Association for the Studies of Socialist Enterprise was founded in 1976. Its founding members included Susumu KAIDO (Kobe Univ.), Soichiro GIGA (Osaka City Univ.), Kunio OSHIMA (Aoyama Gakuin Univ.), and Gisaburo SASAKAWA (Osaka City Univ.). The Association changed its name from the Japan Association for the Studies of Socialist Enterprise to the Japan Association for the Comparative Studies of Management (JACSM) in 1994.

The Association’s activities currently cover all the areas of Comparative Management Systems including business economics, business administration, business history, corporate governance, business ethics, social issues in management ("business and society"), enterprise systems in transition (Russia, China, Hungary, Poland, Bulgaria), accounting, nonprofit organizations and cooperative associations. The Association plays a central role in promoting academic research in comparative studies of business management not only in its uniqueness but also in its coverage. The membership consists of 213 academic researchers.

The Association is managed by the General Meeting, a Board of Directors (20 elected members), an Executive Committee, and a few Secretaries. The President is elected by the Directors. The term of office for the Directors is two years, with a limit of two consecutive terms. The Presidents have been the following members, since the foundation of the Association: Susumu KAIDO (Kobe Univ., 1976-78), Kunio OSHIMA (Aoyama Gakuin
The main activities of the Association consist of holding an annual meeting in Japan and publishing the *Journal of the Association for Comparative Studies of Management* in Japanese once a year.

II. Publications

The Association publishes its annual journal in Japanese, the *Journal of the Association for Comparative Studies of Management*. The journal has published volume 30 in 2006. It covers articles, appropriate papers, and book reviews.

The Editorial Board consists of the Editor, Hideko Sakurai (Sakushin Gakuin Univ.) and three Co-editors (Nobuhiko Nakaya, Yoshiharu Hyakuta, and Ryota Murakami), and four Associate Editor (Takashi Hosokawa).


(1) The journal for 2002 (Vol. 26) carried the following contents.

**Globalization, Comparative Management and Market Economy**

Globalization and Nonprofit Cooperative Organizations in the World (Yasuo Kakurai), New Economy and Globalization (Keiji Natsume), Globalization and Enterprises in Transition Economies (Shozaburo Sakai), Global Environment Problems, and Governments, Firms and Citizens (Jun Kawahara), Market Economy and
Sustainability (Takao NUKI), Business Ethics, and the Study and Education of Management (Nobuo TSUNO).

The Economy and Management of Different Countries


(2) The journal for 2003 (Vol. 27) carried the following contents.

Sustainable Society and Business Management

Sustainable Society and Enterprises (Shuji KOSUGI), Sustainable Development of Japanese Economy and Role of Local Business (Toshiaki CHOKKI), Subjects and Prospects of Modern Business Management (Hiroshi INOUE), Society and Public Enterprise Sector Reform in India (Somahiko TATEYAMA), Sustainability of the Russian Enterprise System (Satoshi MIZOBATA), The Environmental Strategy of Japanese Automobile Manufacturers (Shigeki AOYAMA).

The Economy and Management of Different Countries

Evolution of Social Capital and International Business (Masakazu IMAI), Capital Market and Corporate Governance in Germany (Ken MATSUDA), The Role of Research and Development of Typical Firms in the 20th Century (Masao AOKI), Organization Design of the State’s owned Enterprise in China (Masashi MITA).

(3) The journal for 2004 (Vol. 28) carried the following contents.

Sustainable Society and the Tasks of the Comparative Studies of Management

“Sustainable Society” and Comparative Business Administration (Koki SUZUKI), A New Business Model for Sustainable Development (Kappei HIDAKA), Comparative
Study of Corporate Reforms (Nobuyuki DEMISE), Business and Society under the Putin Regime in Russia: An Outlook for the “Russian Business System” (Shizuko KATO).

**Articles**
On Traditional Chinese Thinking about Management: Outline, Significance, and Characteristics (Yasuyuki YANABA), Urban Public Pension Reform in China (Zhang LI).

(4) The journal for 2005 (Vol. 29) carried the following contents.

**Sustainable Society and the Development of the Comparative Studies of Management**
Implementation of Corporate Governance in American Corporations (Keiji NATSUME), Corporate Society and Corporate Governance in Japan (Nobuyuki DEMISE), Sustainable Society and a Comparative Study on Management in Japan and Germany (Akira HAYASHI), Codes of Conduct and Business Ethics of Transnational Corporations (Shintaro AKAHANE), Sustaining Business Society in France (Yasuyuki YANABA), Energy-Environmental Problems and Stabilization in Northeast Asia (Yutaka MORIOKA), The Actual Situation and Issues of Corporate Governance in China: Characteristics and Subjects in the Outside Monitoring System (LIU Yong-Ge).

**Article**
Chinese Characteristics of Transforming State Enterprises into Joint-Stock Companies (Nobuhiko NAKAYA), Characteristics of Islamic Management and Sustainable Development (Hideko SAKURAI), The Capital Market and Corporate Governance in Bulgaria (Dimiter IALNAZOV).

(5) The journal for 2006 (Vol. 30) carried the following contents.

**Article**
Family Corporation: The Historical Choice by the Chinese Private Corporations in the Economic Transition (Yang Ye), Electricity Reform and Construction of Competitive Electricity Market in Russian Far East (Yutaka MORIOKA), Ownership, Governance, and Financing of Bulgarian Companies (Dimiter IALNAZOV), International Comparison of the Privatization of State Tobacco Monopoly: Japan and France (Ryota MURAKAMI), The Arrival Point and Subject of Corporate Governance Research in China: Referring to the Research Results From Japan and America (Yingchun ZHANG), The Reform and Corporate
III. 2005 Annual Meeting (Celebration of 30th Anniversary)

The 2005 annual meeting was held at Ryukoku University, Kyoto on May 13 and 14. The chairpersons of the organizing committee and program committee were Keiji NATSUME (Ryukoku Univ.) and Masaki HAYASHI (Chuo Univ.), respectively. In the regular sessions, 19 papers were presented altogether.

The title of the main session was Business and Society: What are the Problems and Methodology for the Comparative Studies of Management, Three papers were presented as follows: “Market Economy and Social Safety: Social Policies under the EU Enlargement” by Takumi HORIBAYASHI (Kanazawa Univ.), “Perspectives of Analyzing Business in Society” by Kanji TANIMOTO (Hitotsubashi Univ.), “The tasks of Business Management and Corporate Social Responsibility” by Yoshinari MARUYAMA (Toho Gakuen Univ.). In addition, three discussants participated in this session.

The Association celebrated its 30th anniversary in 2005 and held an international symposium, in addition to the 2005 Annual Meeting. The chairperson of symposium organizing committee was Hiroshi TANAKA (Ritsumeikan Univ.). The title of the international symposium was “New Frontiers of Comparative Studies of Management”.

The aims and meanings of the International symposium is as follows:

The predecessor of our JSCSM was established in 1976 at Kobe University. The International Symposium “New Frontiers of Comparative Studies of Management” celebrated its 30th Anniversary. The Annual Conference of JCSCM in 2005 reviewed our past scientific studies of management for 30 years as well. The Symposium and Conference analyzed contemporary and challenging theoretical and practical issues of the comparative studies of management at the end of the 20th and the 21st century.

More than one decade after the collapse of the Soviet type of socialism and the
closure of the Cold War as a conflict between the “socialist” camp and the “capitalist” camp have made us realize the growing significance of studying divergent forms of management of firms which are doing business in diversely grounded market economies. Paying special attention to not only divergent capitalism, but also the different types of management has brought to light a new frontier of business administration studies.

The aim of this Conference was to find academic benefits from the fact that comparison between management in different areas, different sectors and different economies could help us to essentially understand what a firm is and should be. These advantages can lead us to creatively respond to the paradigm shift of business administration studies at the beginning of this century, addressing the challenge of meeting our society and the world.

It was another aim of this Conference that JSCSM’s boosting exchanges with associations or researchers abroad of comparative studies of management or similar research groups will stimulate and diversify our academic activities, which will have a great impact on other associations of business administration studies and make itself more attractive for the younger generation of researchers.

The keynote speakers are listed as follows. “Changing Institutional Regimes and Business Systems: Opportunism, collective competition goods and political-economic coalitions” by Richard WHITLEY (Manchester Business School, University of Manchester), “The Chinese Perspective of Comparative Studies of Firms in a Transition Economy” by YANG Ye (Center of European Studies, School of International Area Studies, East China Normal University), the discussants were “From the Perspective of USA Firm Studies” by Keiji MATSUME (Ryukoku Univ.), “From the Perspective of Russian Firms in Transition Studies” by Satoshi MIZOBATA (Kyoto Univ.), “From the Perspective of Asian Firm Studies” by Yutaka TAKAKUBO (Nihon Univ.).

The following papers were also read in the regular sessions: “Privatization of Telecommunications Carriers: From Regulation to Liberalization, From Monopoly to Competition” by Teruyuki INOUE (Daito Bunka Univ.), “The Privatization of Airline
IV. Recent Trends of Research

The most important argument of JACSM is the comparative analysis of current systems of management. Our analysis requires consideration of why varied forms of management organization persist and how they change. This requires specification of the interdependencies between particular characteristics of these distinctive forms and the dominant institutional arrangements.

R. WHITLEY (1999) presents a comparative business systems framework for describing and explaining the major differences in economic organization between market economies. He suggests that they are to be understood in terms of prevailing institutions dealing with the constitution and control of key resources such as skills, capital, and legitimacy. This framework is used to analyze the development and change of different forms of economic organization in post-war Asia and Eastern Europe.

Whitley points out that “characteristics of very broad and wide-ranging models of capitalism in competitive processes and organized coordination of economic activities suggest a number of important dimensions for comparing systems of economic organization across market economies; these include (1) the variety of resources and activities integrated through managerial hierarchies, (2) the organization of ownership and control, (3) an important aspect of market economies that is highlighted by these accounts is the degree of cooperation between suppliers and customers and between competitors, (4) one is the extent of organizational integration of employees and long-term interdependence between employers and employees, and (5) some of these models also emphasize the varying extent to which firms pursue price-based competitive strategies as opposed to innovation and quality ones.” (R. WHITLEY, 1999, p.9)

In the comparative business systems approach the main stress falls on how we develop a new framework for comparing forms of business systems that identifies their key characteristics and differences and explains these in terms of variations in particular kinds of societal institutions.
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