

An Empirical Research on Inter-firm Capital Relationship in Yokokai Using IDE Spatial Model

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Abstract

This paper introduces recent fundamental modifications to the Japanese alliance system known as the keiretsu, and analyses how these changes have affected corporate performance. More specially, the performance of Japanese auto manufacturers, such as Toyota, Nissan and others, has significantly improved due to sophisticated production system technologies, highly productive workers, and recurring transaction relationships with their network family partners. After economic bubble of the 1990s, the strong ties between automobile makers and their supplier partners experienced significant changes, which are known as “keiretsu loosening”. Consequently, what is the status quo of automotive keiretsus? Does cross-shareholding, which is one specific form of capital relationship in keiretsu, still contribute to improving corporate performance? To answer these questions, this research reports the results of a study that collected data on cross-shareholdings to shed light on the relationship between inter-firm capital relationship and corporate performance. The findings of this empirical investigation reveal that: (1) Keiretsu is a flexible, highly adaptive organizational form; its scale changes in response to economic situations; (2) Capital relationships still remain a significant determinant of increasing profits for keiretsu partners even after the bubble burst in the 1990s.

Keywords: Influence, Degree, Effective Size, the IDE model, keiretsu loosening.

1. Introduction

Japanese automobile manufacturers still show signs of performing at a significantly higher level than their global counterparts. This could possibly be due to the sophisticated technologies deployed for their production systems, highly productive employees, and continuous transaction relationships with other member-partners in the keiretsu network. Possibly, one explanatory factor contributing to their success could be due to their unique organization forms—the keiretsu—which provides a strong platform to forge strategic alliances with their parts suppliers, as well as collaboration in research and development with other automobile makers. In the

aftermath of the 1990s economic bubble, the strong linkages between auto manufacturers and their parts suppliers in the keiretsu network underwent a significant phenomenon: “keiretsu loosening”.

Thus, it is necessary to determine the current status quo of keiretsus. More specifically, does cross shareholding, which is a specific capital relationship in keiretsu, is associated with higher levels of corporate performance? To find answers to this and related questions, the purpose of this research-manuscript-based on a review the extant literature on keiretsu-is to propose a new paradigm known as the IDE spatial model, which sheds light on the interrelationship between capital cross-shareholding and corporate performance.

