

《Summary》

Foreign Investors in Japan and the Search for Consensus on Corporate Governance

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This paper deals with some general issues of corporate governance in Japan and suggests that the resolution of certain technical and legal problems in this area is important for the efficient operation of Japanese companies and, thereby, for the economic welfare of the Japanese people.

The role of foreign investors in advocating governance reform is highlighted. Foreign investors own almost 30% of the shares listed on the Tokyo Stock Exchange and often account for 50–60% of the daily traded volume. In that sense, they may be regarded as important leaders of the market direction, but many have expressed considerable dissatisfaction with what they perceive to be a lack of sound corporate governance in Japan.

The author suggests that the distortions which exist in corporate governance in Japan have emerged as a result of corporate managers becoming too powerful and of the substantial weakening of the parties, such as the banks, which were previously able to impose financial and operations disciplines. The lack of governance, which the author defines as “. . . *is a system of supervision of corporate management that seeks to ensure that companies are managed in an efficient and fair manner for the*

benefit of society as a whole. . .” has, he argues, been deleterious to Japanese corporate efficiency, as evidenced by returns on equity (ROE) which are low by global standards.

This vacuum of governance, he suggests, has not been filled by those best qualified to do so—the major investing institutions—because they are themselves constrained by unresolved conflicts of interest.

The paper suggests some ways in which the system might sensibly be reformed and questions the validity of the prevailing system, which is excessively dependent on hard legislation and precedent.

The paper ends with the suggestion that: “*The ideal is to facilitate a transparent, expertly intermediated, and reasonable supervision of corporate management creating a balanced combination of market forces, shareholder democracy and legitimate regulation. In the end, there should be no philosophical gap because we all want the same thing—dynamic and profitable Japanese companies. As Winston Churchill once said: “Democracy is the worst form of government, except for all those other forms that have been tried from time to time.”*”