Quiet Politics and Business Power: Corporate Control in Europe and Japan by Pepper D. Culpepper (review)

Marie Söderberg

The Journal of Japanese Studies, Volume 39, Number 2, Summer 2013, pp. 492-495 (Article)

Published by Society for Japanese Studies
DOI: 10.1353/jjs.2013.0043

For additional information about this article
http://muse.jhu.edu/journals/jjs/summary/v039/39.2.soderberg.html
ninotai nishizuma (undefined in the text) and sanne nohako (a chest owned by Dharma emperors), that would benefit from additional clarification and discussion, and more background on the authors of the many diaries and documents employed throughout would help the reader decide how to better interpret their contributions. Conlan focuses his research around a political bias he sees inherent in Taiheiki, but it is equally important for us to be aware of such predispositions in other sources cited in this volume.

In sum, From Sovereign to Symbol: An Age of Ritual Determinism in Fourteenth-Century Japan provides a paradigm shift in understanding the rival Northern and Southern Courts by focusing attention on the role Shingon rituals played in determining the legitimacy of the Ashikaga state. The scholarship is impressive, and the introduction of many little-known primary sources makes the volume a significant contribution to literature on the period.


Reviewed by
MARIE SÖDERBERG
Stockholm School of Economics

This book touches on a subject that has attracted considerable attention during recent years, namely, corporate control in democratic countries. Since the worldwide economic downturn in 2008 and the collapse of some major companies, voices have been raised in favor of stronger corporate control. But what happens when people are not watching? The general public seems to care about some issues while others receive very little attention, often because they are complex and difficult to grasp.

When corporate issues are debated in the media, politicians know that people are watching and they have a strong incentive to respond to public opinion. Elections can be won or lost over high-salience issues, but are those issues the most important ones or are we missing a number of issues that will have a much larger effect on our daily life?

Pepper Culpepper argues that the political dynamics of low-salience issues differs from that of high-salience ones. In so-called “quiet politics,” highly organized interest groups can dominate the policy process, shielded from public view. One such issue area is hostile takeovers. These might have great political and economic consequences, but the rules governing them seldom command public attention. Deregulation of capital markets has
challenged institutional arrangements that formerly impeded hostile takeovers in Europe and Japan. The author researches hostile takeover processes in France, Germany, the Netherlands, and Japan and finds that the observed outcomes do not depend on government partisanship or on different interest group coalitions but rather on political preferences of managerial organizations. In all countries, the rules favored by the managers of large companies are the ones that prevail, although their preferences differ depending on the strength of labor organizations in their firms.

In previous work, there are basically two broad theoretical approaches used to explain corporate control. The first one, partisan theory, emphasizes variations in the partisanship (parties and elections) of governments. The second, coalitional theory, focuses on interest groups and the coalitions between interest groups that are built to support preferred corporate governance. Both of these assume that politics matters because it produces policy that leads to certain corporate governance outcomes. Culpepper points out that many institutional rules are informal and thus cannot be dealt with by legislation. It is in this field that he seeks to make a theoretical contribution by comparative qualitative research on hostile takeover processes in four different countries.

Germany stands out as the one with the most patient capital, having concentrated ownership, stable ownership groups, and limited hostile takeover activity. Since 1995 Germany has been stable compared to the Netherlands, and in particular compared to France and Japan, which have seen considerable changes over time. The Netherlands lacked the concentrated ownership that characterized France and Germany but has enjoyed legal protection against hostile takeovers. This shows that national institutional context matters. In France, the state was the dominant owner of many of the large companies until 1986 when the right took power and initiated a privatization process. At first, a network of stable ownership was created through cross-shareholding but this system collapsed in 1998 and the French companies were replaced by foreign institutional investors, which opened up opportunities for a number of hostile takeovers.

The conventional view of the postwar Japanese economy has emphasized cross-shareholding and informal links (both horizontal and vertical) between firms in so-called *keiretsu*, networks organized around trading houses or large banks. Since 1996 and the downturn in the Japanese economy, however, stable shareholding has deteriorated. As the prices of shares collapsed, banks had to sell to meet their capital requirements. Because of the weakness of labor representatives at the company level, managers were able to carry out aggressive restructuring, the mighty industrial organization Keidanren pushed for the reform of corporate law to facilitate this process, and substantial legal changes were made. In line with this, hostile takeovers became possible in Japan although no large companies were the
subject of such attempts before 2004. This changed with the UFJ-Sumitomo battle as well as the Livedoor attempted takeover of Nippon Broadcasting in 2005. The members of Keidanren, which are large companies, suddenly came to realize that this might happen to them as well and started to oppose new rules that could make them the object of takeover activities. The Livedoor attempt really hit the headlines and made corporate control an issue of high political salience in Japan, and it actually hindered organized managers from stopping legislation on a new style of merger known as a triangular merger. The most important instruments preventing hostile takeovers were, however, not politically debated in the parliament but were taken as guidelines for “fair and reasonable” takeovers by the Corporate Value Study Group, a group initiated by the bureaucracy. Managerial interest can be said to have been well represented in this group whereas other interests were not.

Culpepper mentions that many of the actors he interviewed consistently reported that the coverage of hostile takeovers in the Japanese press was tinged with nationalist reactions against the possibility of foreign takeovers. According to his own findings, however, it appeared that press coverage in Japan was more neutral than in the other countries studied (p. 131). This might be the case with hostile takeovers of Japanese firms by Japanese firms. The fact that there have been no so-called hostile takeovers of any considerable size by foreign companies in Japan tells another story. Ownership issues and nationalism have been closely connected in the Japanese press, not least recently in the reports of Chinese purchases of land in Japan.

In chapter 6 Culpepper writes about one salient political issue: executive pay. He goes beyond his initial four countries to research the situation in the United States as well as France. He shows how the Enron scandal created pressure from public opinion that politicians had to act upon and how high salience also made the French government take action. He finds that it is more important for managerial institutions whether certain issues are played up in the media than which political party is in power and will introduce new legislation—a finding that is thought provoking for those of us who live in democratic countries. Is it worth voting?

It would have been very interesting if Culpepper had stuck to his original four countries for his research into executive pay as well. It would have been particularly interesting to see how this issue is handled in Japan, where executive pay is about one-tenth of that in the United States and where company executives take substantial pay cuts when their companies are not performing. The low pay does not make executive salaries a salient issue in Japan, but would it not tell us something about the power of big business and its managers, which after all is the topic of the book? Furthermore, what does this tell us about the importance of organized labor (the unions), which is considered almost absent from decision-making in Japanese busi-
ness? Obviously, other informal institutions besides the salience of an issue are important as well.

Culpepper also points out that the success of hostile takeovers now permitted in Japan has so far been limited. Nowhere does he refer to ongoing discussion in Japan and elsewhere as to whether mergers and acquisitions (including hostile takeovers) are actually something positive to be sought as a way to revitalize the economy in a globalized world. A hostile takeover is of course something negative for the management of the company concerned, and excessive executive pay draws on resources that could have been spent on shareholders, but it might not always be bad for taxpayers and the economy in general. Would more intervention and regulation from government improve business performance and create more sustainable economic performance? Lessons from history do not prove that (I have the former Soviet Union in mind). Government performance in regulating the power of business is a matter of achieving a delicate balance.

The theme of this book, the power of business, is a very timely one, and recent developments with the economic downturn in large parts of the “old” Western democratic world are raising many questions in this field. Is it the salience of an issue that decides whether it needs to be handled? Does this mean that only simple issues that can provoke emotions and catch media attention will be addressed, whereas more complex issues will just be left aside and not dealt with? This book puts this question on the table and challenges us to think about it. We have theories about why companies prefer different institutional arrangements, but we understand less well how business wins or loses battles over institutional change. A focus on the power resources available to business and other interest groups could assist political scientists in returning to this issue but, as the author points out, not all democratic politics look alike. Comparative studies like this one are thus very important for gaining a deeper understanding.


Reviewed by
THOMAS U. BERGER
Boston University

Saadia Pekkanen and Paul Kallender-Umezu have written a detailed and valuable new study on an important and underresearched topic, the evolution of Japan’s policy regarding the utilization of space. The question they