

Changes of corporate governance and labour systems in transition:

A comparison of Russia and Japan

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Introduction

Economic systems may be readily classified by the type of corporate governance and enterprise system. Traditionally, 3 main types of the institutional frameworks have been divided into a liberal market economy and two types of coordinated market economies (Hall and Soskice, 2001). The US model (Anglo-American model) is a case of the former (shareholder capitalism), and the Japanese model and Continental model are understood as the latter (stakeholder capitalism). The Russian firm may also be classified as a kind of shareholder type because the firm concentrates ownership in a few hands. In practice, the rule of the game is regarded as harmonized into the global market¹. As far as we observe the company law, Japan and Russia accept this trend: the relaxation of the company's set-up, and protection of minority shareholders among others. Therefore, does the corporate model converge into a single model? The occurrence of convergence to liberal market capitalism is not merely of theoretical interest, but also of practical concern.

Globalization and liberalization, however, penetrate into all the coordinated models, and labour systems in the company have revealed their own national significance, while the coordinated (Japanese) firm does not seem to lose the specificity as a "quasi-community". The corporate structure has preserved its own labour systems, with a degree of firm-specific skill formation. The Russian firm also seems to show its own specificity under globalization. Merger and acquisitions may be regarded as a typical case, and we cannot ignore the occurrence of raids and informal behavior (Mizobata, 2008a). In addition, some data reveal path-dependent organization - similar to a "quasi-community". Both models in Russia and Japan provide important case studies for investigating the perspective of convergence, hybridization, and continuity. Both accept global legal bases and have shown change and continuity. Comparing the typical coordinated model (the Japanese firm) and the latent liberal model from the angle of corporate structure and labour systems, I will develop the typology of the corporate model and the empirical survey on the evolving patterns and hybridization in both cases.

Empirically, I use data for the Japanese model which include survey data by the Policy Research Institute of the Ministry of Finance in 2003 as well as other official data. Above all, a recent issue of

¹ Lane (2007, pp. 34-37) the former state socialist countries changed into two major types: The first is closest to the continental type of market capitalism, though it is more state-led in the central European countries. A second model is that of a hybrid state/market uncoordinated capitalism in a relatively economically poor group as Russia, Ukraine, Kazakhstan, Georgia, Turkmenistan, and Moldova.

The Economist reported on-going hybrid capitalism in Japan. For the Russian model, I use my own interview and questionnaire research² during 2004-2006 in addition to another empirical survey. Particularly, the questionnaire survey (to directors) by the Higher School of Economics in Russia in 2007 is the most important one, which includes 303 industrial firms. The survey includes the following industries: 8.3% in chemical and petrochemical, 47.4% in machine building, 12.1% in timber and papermaking, 8.1% in construction materials, 6.6% in the light industry, and 17.5% in the food industry. The types of the companies are as follows: 40.8% are limited companies, 38.9% are open joint stock companies, 16.6% are closed joint stock companies and 2.7% are state unitary enterprises. Table 1 indicates ownership structure of sampled firms, which indicate a great similarity to data of *the Russian Economic Barometer* (Table 2).

Table 1 Ownership in questionnaire survey in 2007 (%: average of respondents)

Government	7.3
Workers' collective	13.5
Directors	24.3
Private firms	12.6
Foreigners	1.4
Individuals	30.5

1. Angles for a comparison of J and R firm

When we characterize the corporate system, the following dimensions are considered: industrial relations, vocational training and education, corporate governance, inter-firm relations, and coordination to employees³. In particular, an analysis of the Japanese corporate system has been traditionally characterized by corporate governance and the labour systems. Examining the discipline mechanism, the turnover of managers plays a decisive role in its performance. This paper characterizes the Japanese corporate system and the Russian system based on the following three aspects: 1) corporate governance, 2) labour systems, and 3) the turnover of managers⁴.

Generally speaking, the traditional corporate system in Japan is characterized as follows. The Japanese enterprises form cross-shareholding and stable shareholding based on related companies

² Data of interview and questionnaire research were analyzed in Mizobata (2008b). This paper comes to a conclusion that there is a kind of mixed corporate governance in Russia (an amalgam of Russian tradition and liberal reforms) in Russia.

³ The varieties of capitalism approach classifies the corporate system based on these aspects. See Hall and Soskice, 2001.

⁴ Managers mean top-managers, shortly various kinds of directors and executive committee members and the company draws a sharp line between managers and employees. Therefore, in the strict sense of the word, upper management class (the top rank employees) who does not have a position of a director or an executive is excluded from managers. However, the border line is not clear. In Russian firms, chief information executive is regarded as a middle manager. Concerning the definition of managers, see Osawa (2004) and Roschin and Solntsev (2006).

and main banks, long-term transaction relations within the group, and specific subcontracting relations (*Keiretsu*). The enterprise is closely related with the main banks. Thus, the Japanese companies are said to consider the market share and the long-term management⁵, and the Japanese system may be regarded as a stakeholder type. “The idea of the firm as a community of people is manifest in a number of human resource management practices geared to mobilize long-term commitment to the enterprise. Lifetime employment is a norm for regular and usually male employees in large firms, which became institutionalized in tandem with the emergence of cooperative enterprise-based unions in the early post-war period. While lifetime employment reflects strong legal constraints on dismissals, firms also invest in firm-specific skills and maintain internal flexibility of employees with regard to job functions within the firm or related firms. This system is supported by seniority-related wages, a rank-hierarchy system of promotion, training through job rotation, and a strong socialization into company culture⁶”. The above traditional Japanese model (here after, J firm) has experienced drastic changes after the collapse of the bubble economy in 1990s.

On the other hand, the Russian corporate system may be characterized in the privatization process⁷. In the Russian firm, ownership has been concentrated into a few hands, and insider control has been strengthened. The outsiders have been relatively weak. The monitoring of stakeholders to managers is also weak. Managers are apt to behave with short-term aims and to evade the long-term investment with a relative high risk. Managers are closely linked with the owners and their transparency of corporate information becomes insufficient. In general, ownership and management are identified and such identification lowers management costs. Therefore, the outsider investors are liable to be excluded. In addition, the Russian companies have a relative strong influence from the governments (central and regional) and the influential paths include not only property rights but also various kinds of administrative authorizations. The capital markets are immature. The financial institutions do not play an intermediary role, and they have built enterprises by themselves. Employees are not necessarily neglected and over-employment has been maintained as in-house welfare such as housing has partially survived. The social liquidity of employees, however, is high. The Russian corporate model built in the process of transformation (here after, R firm) has also experienced drastic changes after the 1998 financial crisis and during the economic recovery.

A comparison of J firms and R firms may become a tool for investigating varieties of the corporate system as well as a material for understanding the globalization’s impact to the corporate sector. Although the J firm has been molded in the process of the post-war economic growth, it has changed in quality under the globalization. Likewise, although the R firm has evolved in the transformation process, it seems to have intensified with the degree of the globalization and

⁵ See Kanamori, Kousai and Ohmori, 2004.

⁶ Jackson and Miyajima, 2007, pp.4-5.

⁷ See Klochai, 2007.

transnationalization, in parallel with the sharp increase in oil and natural gas prices.

In the case of J firms the foreigners have increased their portfolio investment and foreign direct investment (FDI) cannot but affect strongly on corporate governance. “Alongside inward FDI, Japanese companies have become increasingly internationalized with oversea production facilities and operations. Multinational firms often want to increase internal transparency and use global standards familiar to stakeholders abroad. For example, Toyota cites its main motivation for introducing the executive officer system in 2003 in order to attain global group management, although board members remain company insiders and are still required to have shop-floor experience. These trends have increased the salience of international standards for Japanese firms⁸”.

For R firms, an increase of foreign investment inflow and an FDI’s growth includes penetration of the global rules into the domestic corporate sector. Russia is obliged to accept OECD corporate governance principles and the transparency standard of the firm seems to have improved.

The corporate sector includes both continuity and changes. Observing both, I examine the perspective of J firms and R firms.

2. A comparison of corporate governance

While corporate governance can be characterized by a variety of indicators, I focus on corporate ownership and corporate finance in Japan and Russia.

2.1 Corporate ownership

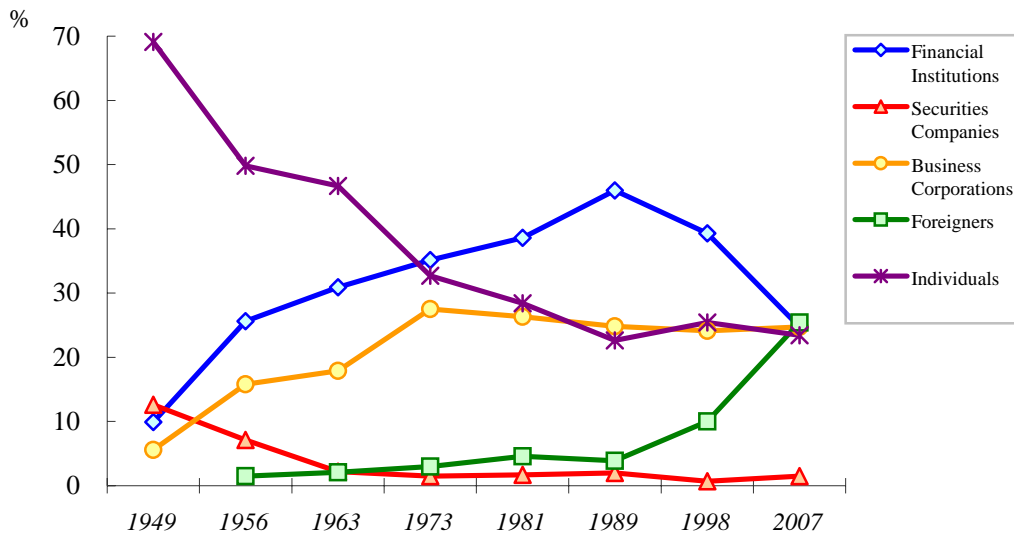
The J firm began to change at the turning point year of 1997. Shareholder authority has intensified and changes are based on corporate ownership. Figure 1 indicates distribution percentage of Unit shares held by type of shareholders in listed companies. The following changes can be easily drawn out: First, financial institutions sharply reduced their shares after 1990s. The banking crisis after the collapse of bubble economy and the Bank Shareholding Restriction Law affected a decline of the bank’s holdings⁹. Major commercial banks began selling corporate shares to raise funds for disposing of non-performing loans and meet regulations regarding their capital adequacy (Jackson and Miyajima, 2007, p.20). Second, although the number of individual shareholders increased, the share of holding is stagnating or a little declining. Third, foreigners have increased their holding significantly. Their shares increased from 3.9% in 1989 to 25.5% in 2007. Notably, foreigners increased their shares in the following sectors: pharmacy, insurance, security, electric apparatus, real estate, and precision machines. Above all, the following companies exceeded the share of foreigners (foreign institutional investors) 30% of the total capital: Sony, Rome, Yamanouchi pharmacy, Tokyo

⁸ Jackson and Miyajima, 2007, p.11.

⁹ “Major banks’ shareholdings were 1.5 times Tier 1 capital in March 2001, so they were required to reduce their shareholdings by 10 trillion yen.” (Miyajima and Kuroki, 2007, p.91)

Electron, Furukawa Electrics, TDK, Orix, Murata and others (Kagono, 2005, p.298). The companies with a high share of foreign shareholders have a tendency to change corporate governance into a market-oriented (US type).

Figure 1 Type of Shareholder



Source: Tokyo exchange stock, et al., *Outline of Results in Shareholding in 2007*.

Figure 2 also indicates the shareholders' composition in Japan (listed companies in the three largest cities). We can observe an increase of institutional investors, a decline of cross-shareholdings, and an increase of insiders.

The decline of cross-shareholding is associated with promoting growth due to a release from short-run market pressure or lowering risks by sharing them within groups. The proportion of cross-shareholding fell from 18.4% of all shares in 1987¹⁰ to just 7.6% in 2003. Likewise, the proportion of stable shareholders, defined as cross-shareholdings plus shares held by long-term investors such as financial institutions or related business firms, fell from 43.1% in 1990 to just 26% in 2002. According to the Nisei Institute, the share of stable shareholders decreased from 45.8% in 1987 to 24.3% in 2003. If we regard stable shareholders as insiders, the Japanese type of insider shareholders has lost their influence within the firm (Nisei Fundamental Institute, 2003).

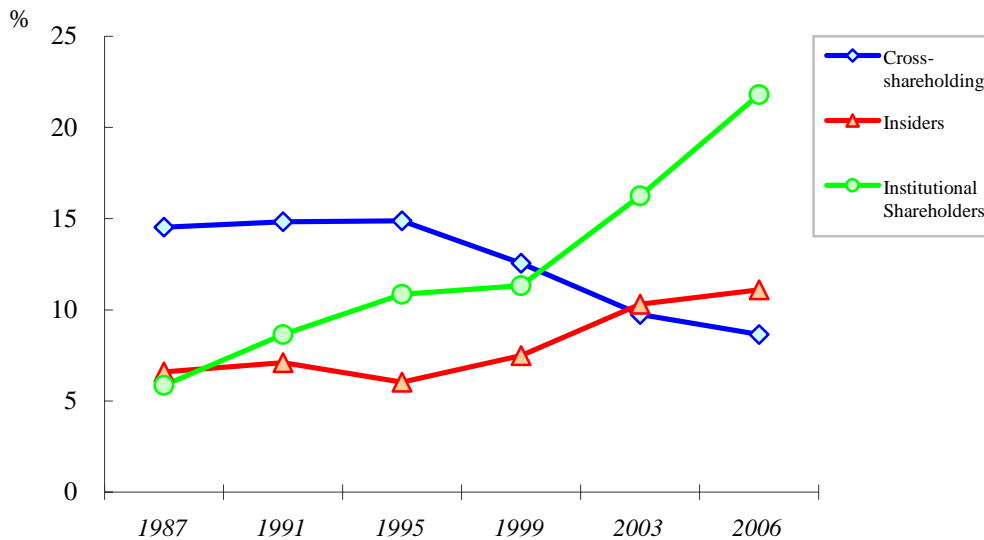
While cross-shareholding has declined, the decline seems to show a recent reverse. So, there are observed dual trends: a decline of Japanese insiders' share and a recovery of them. Some firms that continued borrowing from maintained cross-shareholding. In order to defend M&As and in order to

¹⁰ The peak of cross-shareholding was in 1987 because the corporate restructuring costs were necessary by selling crossholding shares.

increase international competitiveness, many large businesses tried to form stable shareholding. For example, New Japan Steel, Sumitomo Steel and Kobe Steel hold shares mutually. As a result, the process has been a growing diversity of ownership patterns among the enterprises.

As for shares held by employees, their holdings (as a share of employees' holding organization) has stagnating: 0.99% in 2004, 0.89% in 2005, and 0.83% in 2006. At the same time, the rate of participant employees has decreased: 48.17% in 2004, 46.71% in 2005, and 47.38% in 2006. The employees' share indicates a stable shareholder, and the total value has reached 3.87 trillion yen. Seen from the ratio of holding, employees' stock (insider) does not function well as a stable shareholder¹¹.

Figure 2 Shareholders Composition



Source: Tokyo exchange stock, et al., *Outline of Results in Shareholding in 2007*.

In Russia, R firms have shown a high share of insider ownership, as Table 2 indicates. Particularly, managers have retained their holdings, and a coincidence of ownership and management can be observed. Outsiders occupy a third, although it does not necessarily show an increasing trend. Even after the financial crisis, while the share of managers and employees drastically reversed, the share of insiders and outsiders has become stable. Compared with the ownership of J firms, the government has maintained a strong influence. The above trend can be confirmed with a recent interview. As Table 3 reveals, managers have a dominant ownership, and at

¹¹ Tokyo exchange stock, et al., *Outline of Results in Shareholding in 2007*.

the same time they show concentration of ownership. It is not too much to say that the R firm is entirely the owner firm where functions of ownership and management concentrate into the hand of owner managers. Seen from the history of the evolution of the company, the R firm may be regarded as a firm in its infancy¹².

Table 2 Ownership structure in Russia (%)

	1995	1997	1999	2001	2003	2005	2007	2009(forcast)
Insiders, total	54	52	50	50	50	48	51	55
Managers	11	15	15	19	25	31	35	41
Workers	43	37	34	28	22	16	13	10
Outsiders, total	37	42	42	42	45	45	40	38
Non-financial outsiders	27	31	33	34	36	38	31	24
Outside individuals	11	15	20	22	21	20	13	8
Other enterprises	16	16	13	12	15	18	18	16
Financial outsiders	9	9	7	8	8	5	8	13
State	9	7	7	7	4	7	9	7

Source: Aukutsionek, Dyomina, and Kapelyushnikov, 2007, p.4.

Table 3 Ownership of interview firms in 2004

Type	Number of employees	growth	ownership	competition	investment by self-finance
OOO	800	++	100% managers	+	80%
OAO	37000	+	90% managers	++	+
OOO	20	++	100% managers	++	90%
ZAO	600	++	100% managers	+	95%
OAO	48	++	50% managers	++	30%
OAO	10	--	20% managers	++	0%
ZAO	150	-+	100% managers	-	100%
OOO	20	+	66% managers	++	100%
OOO	530	+	100% private hands	++	50%
Holding	64000	++	100% managers	++	70%

While employees share have decreased, the impact cannot be ignored. After the financial crisis, a

¹² See Osawa, 2004, chapter 1.

decline of their influence seems to have halted¹³. In addition, while in the process of economic growth, the foreigners increase of their shares through IPOs, and the ownership of R firms has shown stability.

In order to compare ownership in Japan and Russia, I highlight the typical firm: Toyota automobile company and Gazprom¹⁴. Table 4 explains the ownership structure of Toyota in March 2007. Although foreigners have increased their shares, financial institutions have kept their position and seem to organize so-called stable shareholder with own holding. Gazprom indicates a different picture (Table 5). The government has a large stake, and Gazprom, in practice, has established stable shareholding with group member's holdings. At the same time, foreigners have kept their shares. On the whole, while both companies show a contrast in ownership, both deliberately organize stable shareholding.

Table 4 Ownership structure in Toyota (The end of March, 2007: %)

Financial institutions	33.46
Securities company	1.58
Other corporations	16.62
Foreign corporations with ADR	27.15 (3.95 ADR)
Individuals with treasury stock	21.19 (11.42 treasury stock)

Source: Company Report in 2008.

Table 5 Ownership structure in Gazprom (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Russian Federation	40,87	40,87	38,37	38,37	38,37	38,37	38,37	38,37	38,37	50,00	50,01
Russian Juristic persons	26,82	35,30	36,32	31,53	33,64	34,06	35,07	36,10	36,81	29,48	29,48
Russian individuals	30,33	21,85	20,83	19,79	17,68	16,07	15,06	14,03	13,32	13,07	13,07
Foreigners	1,98	1,98	4,48	10,31	10,31	11,50	11,50	11,50	11,50	7,45	7,44
Total	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: Company Report in 2007.

¹³ Some companies have encouraged employees' stock ownership. Employees' shareholding has the following merits: motivation for work, financing within the firm, and stable shareholders (Mizobata, 2007, p.79).

¹⁴ Data in both companies come from the annual report of the company.

2.2 Corporate finance

A second aspect of change may be observed in corporate finance.

J firms have been traditionally financed through external finance, and a main bank played the core role for financing. Corporate finance, however, has drastically changed after financial deregulation and the collapse of the bubble economy in 1990s.

Internal funds consist a main part of financing and external funds as a traditional financial path, declined in share percentage. The changes, however, should not be overstated. While large firms decreased links with banks and began financing through bonds, smaller firms continued borrowing from banks. In short, some large listed firms depend on capital markets, and smaller firms continue to depend on bank borrowing, and corporate finance in Japan can be characterized by the segmented main banks and the co-existence of different dual bank-firm relations (Jackson and Miyajima, 2007, and Arikawa and Miyajima 2007)..

R firms have also gradually changed financing. The traditional R firm may be regarded as an internal financing type due to the fragile financial institutions. However, we cannot ignore the changes. Table 6 throws light on the gradual change. During 2000-2006, external funds increased by 5.2%, and banks seem to strengthen their loans. At the same time, R firms increased capitalization and transaction of stocks and corporate debentures. “So many firms of the real sector began to regard the financial markets as initial external sources of investment and acquisition of competitors. In 2007, Russian firms financed 32.7 billion dollars in the domestic markets of securities markets, which corresponded to 13% of the total investment of all the Russian firms in 2007¹⁵.”

J firms and R firms have shown change and continuity respectively.

Table 6 Financial resources in Russia (%)

	1995	2000	2001	2002	2003	2004	2005	2006
Internal fund	49.0	47.5	49.4	45.0	45.2	45.4	44.5	42.1
profits	20.9	23.4	24.0	19.1	17.8	19.2	20.3	19.9
Depreciation reserves	22.6	18.1	18.5	21.9	24.2	22.8	20.9	19.1
External fund	51.0	52.5	50.6	55.0	54.8	54.6	55.5	57.9
Bank credits	-	2.9	4.4	5.9	6.4	7.9	8.1	9.6
borrowing	-	7.2	4.9	6.5	6.8	7.3	5.9	6.0
budgets	21.8	22.0	20.4	19.9	19.6	17.8	20.4	20.2
others	-	15.6	18.3	20.3	21.1	20.8	20.6	21.6

Source: Rosstat, *Russian Statistical Yearbook*, 2007, p.707.

¹⁵ Yu.Danilov, Oasis of the Future, *Ekspert*, No.21, 26 May-1 June 2008.

3. A comparison of labour systems: Case of J firm

Labour systems may be regarded as a key indicator when the varieties of capitalism approach investigates economic institutions (Hall and Soskice, 2001). Labour systems of the firm characterize not only the internal structure of the firm but also the labour markets. At the same time, labour systems have a decisive role in providing collective competition goods¹⁶.

J firms or Japanese management consists of the three key elements: lifetime employment, a seniority system and company unions. Core workers promote within the firm, and they organize the internal labour markets. “Serious training, technology transfer and a good deal of standard-setting take place primarily within the vertical *keiretsu*. Workers are encouraged to acquire firm- or group-specific skills, and notably strong relational skills appropriate for use within the family of companies within which they have been trained. In order to persuade workers to invest in skills of this specificity, the large firms have customarily offered many of them lifetime employment” (Hall and Soskice, 2001, p.34). Especially, OJT (on the job training) has played a main role in in-house education. Koike (1999) regarded the degree of skill formation as a basic competitiveness of the company, and he thought that the intellectual skills determined the production efficiency and such skills became generalized as well as firm-specific¹⁷. As a result, core workers employment in J firms were protected similar to those in European continental countries (Table 7). As far as lifetime employment may correspond to core workers, lifetime employment gives expression to the employment ratio by age. While for male workers, the employment ratio is relatively high till the retirement age, female workers indicate a relative low employment rate and M-shape line (a decline of employment rate in 30-40s). The institutions of J firms showed stable complementarities. According to Tsuru (2005), J firms used a competence-qualification system¹⁸.

Table 7 Employment protection of core workers (Score: 0-6, the second half of 1990s)

	France	Germany	Netherlands	UK	USA	Japan
Inconvenience of layoff procedure	2.8	3.5	5.0	1.0	0.0	2.0
Advance announcement term and allowance of layoff	1.5	1.3	1.0	1.1	0.0	1.8
Difficulty of layoff	2.8	3.5	3.3	0.3	0.5	4.3
Total strength of job-guarantee	2.3	2.8	3.1	0.8	0.2	2.7

Source: OECD, *Employment Outlook*, 1999.

¹⁶ They include knowledge about the market, the availability of highly skilled workers of different kinds, the management of labour and others (Whitley, 2007, p.89).

¹⁷ Miyamoto (2004) regards the skill formed within the firm irrespective the educational level as intermediate skill, and tells the Japanese type from the US type by the degree of intermediate skill.

¹⁸ The fundamental frameworks are as follows: human resource accumulation by firm-specific skills, transaction based on relation-specific skills and job experiences, and a growth of the firm.

The Japanese labour systems are difficult to sustain because of intense international competitiveness. The competence-qualification system was replaced by a merit pay system. In order to decrease labour costs, some firms try to abolish lifetime employment and reduce wages, which has made employees change their jobs and firm-specific skills have become difficult to continue. Changes to employment laws stimulate taking on more non-regular workers with lower pay and short term contracts. On behalf of regular workers, the share of non-regular workers¹⁹ has sharply risen from 19% in 1989 to 33% in 2007 (*The Economist*, December 1, 2007, p.18) or the share of part-time workers accounted for 26.2% of the total employment²⁰. Table 8 and Table 9 show a drastic increase of irregular workers. Although female workers have occupied a high rate of irregular workers in employment, male workers have also shown an increase. Seen from irregular workers from the age structure, as companies froze the hiring of regular workers during 1990s, the younger generation and older generation have shown a relatively high rate.

Table 8 Irregular workers in Japan (%)

	1982	1987	1992	1997	2002
male	8.3	9.1	9.9	11.2	16.5
female	31.8	37.1	39.1	44.0	53.0

Source: Statistics Bureau Ministry of Internal Affairs and Communications, Japan, *Employment Structure of Japan, Summary Results and Analyses of 2002 Employment Status Survey*, 2002.

Table 9 Changes in employment (thousand, %)

	1985	1995	2005
Employment, total	39990	47800	49230
Regular employment	33430 (83.6)	37790 (79.1)	33330 (67.1)
Irregular employment	6550 (16.4)	10010 (20.9)	15910 (32.3)

Source: *White Paper of Labour Economics*, 2006.

For example, Toyota automobile company utilized a temporary help agency. At the Toyota automobile factory in Kyushu area, there were more than 2,000 temporary workers and they occupied about 40% in manufacturing sector. Although the Toyota system has firm specific technology and skills which are easy to pass down by workers and over generations, the flexible temporary workers have become indispensable for survival.

An increase of irregular employment or an increase of numbers of workers of temporary status means that firm-specific skills have reduced their value and that J firms have given up long-term

¹⁹ Part-time job, side-job, temporary status, contract workers and others are included.

²⁰ *Monthly labour survey*, National Survey, Vol.41, No.7, Jan. 2008.

employment. In addition, the institutional complementarities between bank finance and in-house training that characterized the traditional Japanese firm does not seem to function and is shifting from bank finance to equity finance (shareholder activism) and may threaten the Japanese style of human resource management (Abe and Hoshi, 2007).

At the same time, “most firms have adopted merit-based payment systems based on individual performance evaluations (about 40%) or have moved to a more complex type of human resource management scheme that integrates both seniority and merit elements (about 40%)” (Jackson and Miyajima, 2007, p.26).

Even though big companies have increased labour mobility and introduced a large number of non-regular workers in the production lines, they seem to keep long-term employment. Some “companies are starting to move some non-regular workers into regular positions. UNIQLO, for example, a clothes retailer, said in March that it would turn 5,000 of its 6,000 non-regular workers into regular ones within two years, and Canon said it would do the same for 1,000 of its 13,000 factory workers” (*The Economist*, December 1 2007, p.13).

As a result, labour mobility shows the following picture²¹: the number of regularly employed workers in the first of January 2006 was 43606 thousand, and increased employees were 8332.5 thousand (19.1%) of the total. They include transfers within the same enterprise (1339.6 thousand, 3.1% of the total) and hired employees (6992.9 thousand, 16.0% of the total²²). Occupationally experienced workers were included (4535.1 thousand) of the total transfers. The net labour mobility of employees may be regarded as 10.4%. On the other hand, 8445.9 thousand (19.4% of the total) were decreased employees. They include transfers within the same enterprise (1401.0 thousand, 3.2%) and separated employees (7044.9 thousand, 16.2%).

The length of service in the J firm is longer than that of any other models as Table 10 indicates. Once a male worker was employed in a big company, he did not move to another company and he transferred within the company. As Table 11 and Table 12 show, changes in employment do not seem to cause a significant change in length of service. While the non-regular workers have increased in number, the core workers have increased their duration at the firm. The Japanese employment system may be maintained by restraining the newcomers.

According to the 2003 “Survey on the Corporate System and Employment” by METI (Ministry of Economy, Trade and Industry), the continued commitment to lifetime employment may be observed in over 80% of the firms (Jackson, 2007, p.285). “Despite this continued commitment to lifetime employment, the core of employees covered under such an arrangement is shrinking. The largest 1% of firms employed nearly 23,000 people on average in 1993, but just 17,400 employees in 2002.... Between 2000 and 2003 surveyed firms reduced their workforce by 15% on average, but

²¹ Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 2006, pp.27-45.

²² Of the total newly hired employees, 39.4% engages in part-time jobs.

only 4% of total exits came through outright lay-offs. Thus lifetime employment is being preserved as a norm of corporate insiders, large firms are undergoing a degree of social closure that makes it difficult for outsiders to enter.” (Jackson and Miyajima, 2007, pp.25-26)

Table 10 Length of service in developed countries (%)

The length of service	Japan	Germany	France	UK	USA
Less than one year	9.8	12.8	15.7	18.6	28.8
1-5 years	27.6	28.2	26.3	36.3	32.9
5-10 years	19.7	17.8	16.2	16.1	11.7
10-20 years	23.6	24.5	25.6	19.3	17.8
More than 20 years	19.3	16.7	15.8	9.6	8.8
Average length (years)	12.5	12.1	10.6	9.2	7.5
Median of length (years)	10.1	9.5	7.9	5.3	3.5

Source: OECD, *Employment Outlook*, 1993.

Table 11 Length of service in Japan (%)

1997	Less than one year	1-5 years	5-10 years	10-20 years	More than 20 years
Male	6.8	21.7	21.1	23.1	27.3
Female	11.0	32.8	26.5	19.5	10.3
Total	8.1	25.1	22.7	22.0	22.1

2006	Less than one year	1-5 years	5-10years	10-20years	More than 20 years
Male	7.5	22.6	17.5	25.9	26.5
Female	12.1	33.0	21.3	22.2	11.4
Total	8.9	25.8	18.7	24.8	21.8

Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 1997, 2006.

In short, change and continuity may simultaneously emerge in a J firm. The most fundamental element of a J firm, “quasi-community firm” (Ronald Dore)²³, has been consciously kept by welfare provisions. As Table 13 shows, the ratio of enterprise welfare provisions is relatively high. In 2000, 46.2% of the firms had education and training programs for all regular white-collar workers, and

²³ See Dore, 2006. This term is used for a comparison with shareholder firms. Dore (2007) uses the term insider management. In a “quasi-community firm”, employees have played the main role in the company, and managers are also integrated in the employees. Therefore, an increase of managers’ wage correlates with an increase of employees’ wage. Employees throw in their lot with managers and they institutionalize consciousness of equality.

80.8% of the firms trained workers primarily through on-the-job training (OJT). The proportion of firms that plan to provide training primarily through OJT in the future drops to 72.3%, and the proportion of the firms that plan to primarily use off-the-job training (OffJT) is expected to increase to 22.5% (Abe and Hoshi, 2007, p.263). Japanese firms may be regarded as a hybrid or segmented.

Table 12 Average length of service

		1997 June	2003 June	2006 June
Industries	total	11.8	12.2	12.0
	male	13.3	13.5	13.5
	female	8.4	9.0	8.8
Manufacturing	total	13.6	14.6	14.5
	male	15.0	15.6	15.5
	female	9.8	11.3	11.2
1000 employees and over	total	17.0	18.4	17.5
	male	18.2	19.2	18.2
	female	11.2	13.7	13.2

Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 1997, 2003, 2006.

Table 13 Welfare provisions in Japan (ratio of sampled firms: %, 2007)

	Total	1000 employees and over
Housing allowance	48.4	66.0
Company housing	35.0	82.0
House ownership support	8.9	32.1
Physical examination	71.8	80.7
Childcare leave	40.5	56.7
Celebratory/condolence payment	94.5	99.2
Leisure facilities	28.6	70.9
Support for cultural and athletic	34.6	63.2
Support for acquirement of official qualifications	47.3	77.6
Employees' savings	57.3	88.5
Company savings or stock holder's association	25.5	76.7
Employees' cafeteria or meal allowance	38.0	60.0

Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 2006, pp.224-225.

4. A comparison of labour systems: The case of the R firm

An R firm may be traditionally regarded as labour hoarding²⁴ with a high labour mobility²⁵.

An R firm also indicates a high labour mobility²⁶. In 2006, increased employees amounted to 11644.7 thousand (30.5% of average employment), with decreased employees at 11797.7 thousand (30.9%). The net labour mobility between firms is estimated to be about 18% of the labour force, and the proportion has been stable in the transformation period. The proportion for males is higher (more than 20%) than females (about 14%).

R firms have evolved through path-dependency, and the Russian labour customs are based on the former socialist system (the Soviet system). The Soviet enterprises also indicated high mobility and workers changed their job seeking higher wages and social benefits. However, the government carried out administrative and economic measures in order to increase stability. As a result, increased employees per employment in industry decreased from 30% in 1970 and 25.8% in 1980 to 21.8% in 1990²⁷. Not all Soviet enterprises experienced such flexibility. Larger enterprises formed, and the more corporate benefits were given to employees, the lower mobility became²⁸. Some large firms retained long-term employment, so the Soviet system included a duality of high mobility and immobility.

The Russian labour systems are difficult to sustain because of the radical transformation (privatisation) period, the transformational recession, financial crisis and economic recovery. On the one hand, while R firms are forced to change its employment by labour markets, some hoarded employment via flexible wages including arrears and temporary employment, and others were forced to reduce employment. On the other hand, irregular employment along with informal employment has increased significantly. Irregular workers occupied 12% of the total employment in 2006, and after 2000 the number has been increasing. According to the state statistical agency, at the early period of transformation, the number of temporary workers recorded was 2.5%, and at the end of 1990s, its level reached 5%, and in the first half of 2000s, it exceeded 10%. The share of temporary workers (less than 30 hours a week) have been stable at 2.6 to 6.4% in the transformation period (Gimpelson et. al., 2007, pp.455-456).

Irregular employment at NOBUS²⁹ and ONPZ³⁰ was 9.8% and 11.1% respectively, and the share of temporary workers was 4.2%. The share of female irregular workers is larger than that for males, and the age structure shows high levels in the under 20 and 60 to 72 groups. While the highest

²⁴ See Aukutsionek and Bataeva, 2000.

²⁵ The law on employment in 2001 protected the employees.

²⁶ See The Federal State Statistical Bureau, 2007.

²⁷ Vishnevskaia et al., 2002, p.206. Decreased employees per employment showed the similar trend: 31% in 1970, 27.1% in 1980, and 24.4% in 1990.

²⁸ See Mizobata, 1996.

²⁹ National Surveys of Prosperity and Participation in Social Programmes (NOBUS in Russian acronym) which were carried out by Rosstat (Federal State Statistical Bureau) with the support of the World Bank in 2003.

³⁰ Survey of Population on Employment Problems (ONPZ in Russian acronym) which had been put into practice since 1972 by Goskomstat/Rosstat.

sectors of irregular workers are retail and wholesale (28%), construction (18%), hotel and restaurant (17%), and agriculture (12%), the share is low in industry and public service (Gimpelson et. al., 2007, pp.467-468). While the wage of irregular workers is higher by 10 to 30% than that of regular workers (500 rubles per hour), their share is not so high as found in developed countries. Due to a shortage of employees, the number of working hours increased and exceeded the Japanese level. (*Profil*, 12 May, 2008)

The above changes reflect the length of service in R firms. Traditionally, the Soviet enterprises showed an increase of duration by reducing the number of short-term employees. The length was similar to the US model. Therefore, the firm-specific skills are not so important and the seniority system does not factor into determining the wage. After the collapse of the Soviet Union, this trend seems to be preserved³¹, and the length is approaching the European level (Table 14). However, the influence of the transformation is not so clear. A worsening the labour conditions stimulated frequent turnover in the quest for wages³².

Table 14 Length of service in a firm (Industry)

	1977	1987	1994	1997
% of employees with length of service less than one year	15.1	12.5	8.7	8.0
Average length of service (years)	8.2	9.5	10.9	10.9

Source: Vishnevskaya et al., 2002, p.225.

Mal'tseva (2007) analyses changes in the length of service after the transformation, and concluded that the length of service during 1994-2005 declined. While in 1994 the greatest share of employees in duration was 10-20 years (21%), it dropped to less than one year (more than a quarter). In 1994, 32% of employees occupied longer duration (more than 10 years), and this share declined to 23% in 2005. The year 1998 was especially regarded as a turning point, and employees with non-continuous employment subsequently reached 26-27%. Such a decline and instability indicates that R firms have not accumulated firm-specific skills and that employees motivation declined in their workplaces. At the same time, Mal'tseva demonstrates a fluidity of the young. As Table 15 indicates, the younger employees service has decreased and more younger employees have left their jobs. Employees with less than 2 years work under with insecure labour relation, and they are apt to change their job for high wages. At the same time, Table 16 shows that female workers have kept their jobs, and when the firm provides the education, workers have also kept their jobs. At the very least, workers may be divided into relative long-term employees (female, higher education, large firm, mixed ownership and in-house training) and unstable employees.

³¹ The average length is about 7 years which is shorter than West European countries and Japan (10-12 years) (Kapelyushnikov, 2007).

³² In 1998, 55% worked less than 5 years and 28% worked more than 10 years (Vishnevskaya et al., 2002, p.226).

Table 15 Percent of separated employees by length of service (%)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Less than 1 year	41	43	43	41	40
1-2 years	30	29	27	28	28
2-5 years	21	19	19	21	21
5-10 years	13	15	12	12	16
10-20 years	13	12	13	10	12
More than 20 years	9	12	11	10	10
Total	23	24	23	23	23

Source: Mal'tseva, 2007

Table 16 Average length of service (years)

	2000	2001	2002	2003	2004	2005
Female	7.03	7.47	7.03	6.91	7.08	7.17
Male	5.99	5.98	5.88	5.81	5.90	5.71

Source: Mal'tseva, 2007

Table 17 Degree of shortage of qualified employees (% of the total responses, 303)

This problem is not a barrier for the development of the firm.	7.8
This problem is not a serious barrier.	16.7
This problem is clearly a barrier.	25.3
This problem is an important barrier.	22.4
This problem is a very serious barrier	26.8

Source: questionnaire in 2007.

Table 18 Recruiting method of qualified employees (% of the total responses, 303)

They voluntarily enter the company.	41.1
The personnel section of the company recruits them.	65.9
They come from the company.	42.0
They train in the educational institutions.	20.9
The company concludes agreement with the educational institutions.	23.9
The company fails recruitment.	12.9

Note: Plural respondents are permitted.

Source: questionnaire in 2007.

Our interview and questionnaire research also demonstrated significant changes in labour systems. According to the interview research in 2004 and 2006, almost all firms³³ respond that they face a shortage of labour and aging of employees. Particularly, town enterprises and enterprises in neighboring towns face a serious shortage of young employees, and most of them have left their own in-house training institutions³⁴. The questionnaire research in 2007 also indicates the following labour system: An overwhelming majority of respondents (75%) regards labour shortage as a serious barrier to development (Table 17). In addition, the recruitment of qualified employees utilizes not only the external labour market but also the internal labour market (42%). (Table 18)

The provision of corporate welfare may be regarded as one of the basic features of the traditional (socialist) R firm. The interview research in 2004 and 2006 make continuity of the provision clear. Some responded that they transferred the company residence, kindergarten, and hot-water supply system to the municipalities, and others continue to provide various kinds of subsidiary measures like free transportation, medical benefits, and others. For example, although the oil company Lukoil was free from the provision of social-cultural conditions and residents, most of them were kept in order to maintain a stable relationship with employees (Peregudov, 2003).

It is estimated that R firms have shown segmented specificities. On the one hand, labour mobility has remained high and irregular workers have increased this flexibility. The employees of R firms decrease their length of service. These phenomena indicate that in Russia the firm-specific skill seems to be restricted. On the other hand, R firms have tried to improve the stability of the work force. The results of interview indicates many enterprises attach importance to their lost own labour training school. In addition, some firms cannot secure their employees sufficiently, although they provided various social benefits like accommodation to employees. R firms have not lost their character as a “quasi-communitarian type”.

5. Management turnover in Japan and Russia

As corporate governance in J firms are characterized by long-term relations and internal personnel policy, the internal turnover of managers may be regarded as an appropriate case to analyze³⁵. Insiders promote not only specialized managers but also the core managers like CEOs. Since 1955, the J firm has shown a trend of an increase in the number of managers' turnover by insiders³⁶. Needless to say, promotion does not mean that there was no competition. Employees competed with each other for a higher rank. In short, the internal managers market has effectively functioned in J

³³ Of 16 firms, 14 firms pointed the shortage of employees including specialists and blue-collar workers.

³⁴ Concerning in-house training and improvement of qualification, see Mordovin, 2005.

³⁵ See Miyajima and Kawamoto, 2007. This survey mainly clarifies the managers' turnover of the pre-war Japanese firms, which is quite different from the post-war firm.

³⁶ After the oil shock (1973), 85% of managers in the J firm were supplied from the company (insiders) Miyajima, 2005, p.195).

firms.

According to some empirical data, the system needs sufficient posts of managers, and has increased the frequency in the turnover of managers as a whole. The number of board members has increased³⁷ and managers' length of service has decreased.

However, an increase of shareholders' power and an introduction of a merit system enhance acceptance of outsider managers and the use of the headhunting companies. Particularly, since 1990s, J firms have been forced to change the managers' formation under the introduction of a US type of governance. The firms have been officially permitted to organize specialized committees and introduced stock options for managers. According to data gathered by the Ministry of Finance in Japan (2000), 142 companies of 1208 total samples (11.8%) introduced stock options and 78 companies of 768 sampled (10.2%) accepted outsider managers. As a result, the length of service of managers has decreased and managers have been replaced with high frequency. The scale of changes, however, cannot be overestimated. Part-time directors from outsiders have limited effects and insiders have maintained their influence and their own promotion path. On the contrary, poor performance has increased frequency of managers' replacement by insiders after 1990s (Miyajima, 2005, p.213). As a result, the dual cases have coexisted since the collapse of the bubble economy: firms with effective governance under the competitive environment, and firms with seniority system (Miyajima, 2005, p.217).

Next, we turn our focus to the Russian management turnover. With respect to the managers' formation in Russia, Kryshtanovskaya (2005) analyses the Russian economic elites. Generally speaking, the government and bureaucratic organizations have traditionally influenced management structure. According to her survey, 60.9% of entrepreneurs came from authority organizations in 1993. During the process of market transition, the structure drastically changed, but the relationship with the political elites in the Soviet period remained. While 28.6% belonged to the former Soviet bureaucrats (nomenclature), many could keep their positions in privatized companies³⁸. However, recent research indicates the following picture which points to a radical change of top-managers: 8% were former Soviet managers, 80% were younger managers with a high level of education (MBA and other degrees), and 13% were foreign managers (Roschin and Solntsev, 2006, pp.42-43)³⁹.

Privatization, startups of newly private enterprises, FDI and the corporate institutions determined management composition, turnover of managers, and top-managers' markets. The turnover concentrated in 2000-2003, and it increased 22% annually (Roschin and Solntsev, 2006, pp.38-40).

The management structure shows the following specificities. First, the ownership clearly

³⁷ Toyota enlarged the number of board members to 58, which means they need another informal organization for effective decision-making. In 1996, about 15% of the total male employees in the 55-59 age bracket had an official position of manager. (Dore, 2006)

³⁸ See Kryshtanovskaya, 2005, pp.338-346.

³⁹ In 2003, the number of managers was 4.4 million, and includes not only top-managers but also middle and lower managers and managers in state organizations. The average length of service was 2.5 years and annually one hundred thousand are replaced (Roschin and Solntsev, 2006, pp.54-55).

expressed management, and the major owners held their top-managers' position simultaneously. The founder firms occupy a dominant position due to a short term of the transformation. Therefore, as far as insider (managers) became the top owners, ownership and management were concentrated in a single hand of insiders. According to the survey, 'National Report on Corporate Governance' by the National Council of Corporate Governance Fund "Bureau of economic analysis", 29% shows separation of ownership and management, and the director is apt to hold shares (Table 19). As a result, insiders have a dominant power in management (Table 20). However, when companies try to list on the LSE or on the NYSE, they are obliged to accept independent directors. This indicates that globalization and transnationalization may enhance minority shareholders and independent directors, which adapt to the US model.

Table 19 Shareholders and managers in the joint stock companies (%)

The largest shareholders are managers, and the director is a shareholder.	40
The largest shareholders are not managers, and the director is not a shareholder.	29
The largest shareholders are not managers, but the director is a shareholder.	23
The largest shareholders are managers, but the director is not a shareholder.	8

Note: Respondents are from 822 joint stock companies in 2005. More than 80% have block shareholders, and more than 70% have majority shareholders.

Source: *Ekonomika i zhizn'*, No.22, May 2008.

Table 20 Board of directors structure in the large companies (% of the total board members)

Appointment to board	822 joint stock companies	75 public companies	17 companies listed in LSE	7 companies listed in NYSE/NASDAQ
Insiders (managers, largest shareholders, workers, government)	90.2	66.3	62.5	38.0
Outside directors	10.3	33.7	37.5	62.0
Minority outside shareholders	4.3	13.9	6.6	28.9
Independent directors	6.0	19.9	31.0	33.0

Note: 822 companies by Table 18. For a comparison, the data of 75 companies in 2006 by S&P 2007 is used.

Source: *Ekonomika i zhizn'*, No.22, May 2008.

Kapelyushnikov and Demina (2005) shows that an increase of outsiders' share enhance the frequency of turnover of managers, and that there are many turnovers in loss-making firms with a large share of outsiders. However, under the environment of the economic growth, an increase of M&As, the development of managers' market and employed managers have increased. The markets are regarded as segmented, and each manager has his own skills, and non-monetary factors have

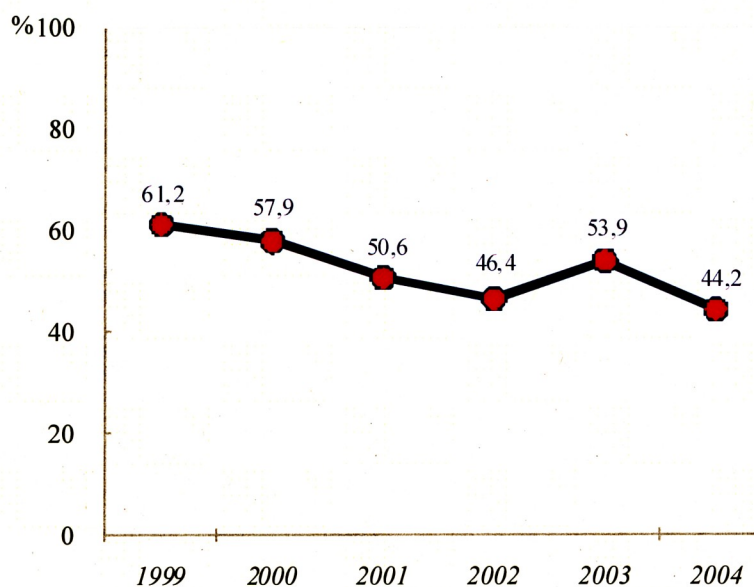
functioned in the markets. The replacement of managers is divided by sector, job, and others⁴⁰. Table 21 indicates the motivation for the appointment of outsider managers. M&As and performance are key factors.

Table 21 Factors affecting turnover of outsider managers in Russia (% of respondents)

	case (%)	Share of outsider managers' appointment (%)
Retirement age to get pension	21.2	54.2
Making worse of achievement	19.5	50.0
Restructuring	15.9	50.0
Change	14.2	6.3
External management	10.6	83.3
Corporate conflicts	8.0	66.7
M&As	3.5	100.0
Political factors	2.7	33.3
Unknown	4.4	20.0
Total	100	49.6

Source: Roschin and Solntsev, 2006, p.48.

Figure 3 Insider turnover rate



Source: Roschin and Solntsev, 2006, p.93.

⁴⁰ The banking sector is the most exclusive and nonferrous metals and food industry are the most open.

Secondly, the insider promotion (internal labour market) is not so effective. In spite of the low level of the firm-specific skills, R firms have utilized the internal labour market. The contemporary situation of the insider promotion occupies about a half of managers (Figure 3, Table 22). The share of internal promotion has decreased in the economic growth period. Internal promotion in foreign companies is stronger than that of Russian companies because the relationship between subsidiaries and parent companies affects promotion. In the following sectors, internal promotion commands an absolute majority: gas industry, audit and consulting, petro processing, machine building, coal and energy, and advertising⁴¹. The specialist of personnel management in APC Company considers the following composition as adequate in Russia: 40% promote from their own company, 30% move from outside, and 30% become managers as a result of M&A (*Company*, No.14, 14 April 2008).

Table 22 Internal promotion rate (% of respondents)

	Russian firms	Foreign companies	Average
Russians	49.8	52.7	50.4
Foreigners	21.1	76.0	55.0
Average	47.9	60.6	51.0

	Male	Female	Average
Russians	49.2	59.9	50.4
Foreigners	54.5	60.2	55.0
Average	49.7	64.1	51.0

Source: Roschin and Solntsev, 2006, pp.94-95.

Third, the education level of managers is high. There are some managers who have dual academic degrees, and business school may be used for a managers' qualification. However, the practical effects of business school are restricted and many Russian managers tend to have technological education. An MBA does not have a decisive role among managers, as Table 23 shows.

Fourth, professional careers including industrial branch specific skills, specific job skills, and firm-specific skills become a decisive factor for human capital. Above all, in the beginning of 1990s, the specific skills of international business were regarded as advantageous and 30.9% of managers had experience to work in a foreign company in Russia. Industrial branch specific skills and firm-specific skills were gained by internal promotion.

The management in Russia is not simple, and it has specific segmentation. While about half of the managers have engaged in management for a relatively long time, others have been replaced in a

⁴¹ See Roschin and Solntsev, 2006, pp.92-97.

short period. From the view point of the appointment of managers, dual paths may be observed. On one hand, internal promotion has been retained as an important path, though its influence is decreasing. On the other hand, outsider managers and managers' markets have increased their role in management.

Table 23 Effectiveness of MBA degree (% of respondents)

Some companies regard an MBA as important. However, my company is not fit for it.	43.55
Yes. My company regards an MBA as important.	22.58
An MBA has no influence.	20.16
I do not know.	13.71

Note: Responses to the question "Does an MBA affect your career in Russia?".

Source: *Ekonomika i zhizn'*, No.15, April 2008.

Table 24 Method of turnover of top-managers (% of the total respondents, 303)

Free competition, including outsider managers	15.7
Usage of headhunting company	19.9
From the company's employees	62.9
Appointment of candidates trusted by directors	43.9
Other methods	1.9

Note: Plural responses permitted.

Table 25 Promotion of employees (% of the total respondents, 303)

Persons who have worked for a long time and have known production well	52.4
Younger and educated persons with knowledge of modern methods	57.5
Persons who have good relations with the employees group	5.5
Persons who support from the employees group	23.2
Persons who work in good faith	38.3
Team members who know well written and unwritten rules	24.4
Persons who have initiatives and new ideas	42.2
others	0.7

Note: Fewer than three responses were permitted.

Finally, I can confirm the above with my empirical data. The interviews indicate that insider managers are dominant in almost all enterprises, and in-house organizations have played a decisive role in selecting managers, even though trade unions have lost power. According to the questionnaire survey (303 enterprises), Table 24 reveals that the internal labour market is binding for about two

thirds of managers, and that free competition and headhunting companies do not play a key role in selecting managers. Then, who is promoted in a company? Table 25 indicates that the seniority and education level seem to be the most important factors. Although R firms superficially look like US firms with respect to the short length of service, it is not unreasonable to say that R firms somewhat resemble J firms.

Then, how can we evaluate the relationship between employees and managers? Do they feel a sense of unity? or do they share several commonalities? The questionnaire research (Table 26) clarifies the inconsistent mentality. Although Only one third companies resemble with J firms as a quasi-community company, contract relations become most important. With respect to this point, R firms may well verge on the US model.

Table 26 Relationship between employees and managers (% of the total respondents)

We all belong to one group, and managers take care employees.	33.5
We contract as equals (contract relations).	43.9
Managers force decisions (formal relations).	6.1
Managers make a decision, and employees fulfill it, otherwise employees are dismissed.	11.2
I cannot answer.	5.3

6. Change and continuity of the corporate system

Not only J firms but also R firms have shown drastic changes which have harmonized to the US model. The typical driving force for harmonization (deregulation and liberalization) may be regarded as legislative. In fact, executive officers and executive committees are introduced in the corporate law, and legally governance and management are distinguished. The practical enforcement, however, is different in both countries. In this paper, we develop a comparison of Japan and Russia using survey data and some official data. Although the sample is restricted, the typology highlights change and continuity in both corporate models.

We can confirm the common market-oriented changes in both countries as follows: an increase of outsiders and foreigners in corporate ownership and development of the stock market, an introduction of a merit system, an increase of irregular workers and a reduction of service length (particularly instable job-change among the younger generation), and an increase of outsider managers and revitalization of managers' market by headhunting companies. The above changes may be regarded as global phenomena and both models may be approaching the global model.

However, in both models, J firms and R firms do not completely lose their own specificities, and hybridization in both can be observed and some key factors have survived. From this angle, both models cannot be regarded as a US type shareholder capitalist model. The following dimensions

must remain in focus: insiders' ownership, welfare provisions by enterprises, insider boards and internal labour market and others. In short, both models have shown both change and continuity, and there are few which completely adapt to the US model. Labour systems in the firm became a key factor for survival.

Change and continuity determines the hybrid patterns. The patterns are characterized by corporate ownership and two sets of internal labour systems related to employment and boards. According to Jackson and Miyajima (2007), Japanese firms fall into three broad groups based on a cluster analysis (Figure 4): the traditional Japanese model with strong relational elements on all dimensions (42% of sample firms accounting for 16% of total employment), hybrid firms based on market-oriented finance and ownership characteristics (24% of sample firms accounting for 67% of total employment), and an intermediate group (inverse hybrid) which has relational finance or insider boards with more market-oriented employment and incentive patterns (34% of sample firms accounting for 18% of total employment).

Figure 4 Corporate governance of J firms

	Outsider board	Insider board
Related finance	Inverse hybrid	J model
Market finance	US model	Hybrid

	Market employment	Relational employment (long-term)
Related finance	Inverse hybrid	J model
Market finance	US model	Hybrid

Source: Jackson and Miyajima, 2007, p.33.

When we highlight one of several changes in J firms, 58% have already changed into a quasi-US model. However, if we attach greater importance to employment and management, two thirds of samples seem to retain characteristics of a J firm. As far as lifetime employment is kept to a degree,

few have abandoned lifetime employment norms, and hybridization with diverse ways may be regarded as a result of Japanese liberalization. Then, the year 1997 represents a turning point when a number of important legal relaxations was introduced, and “in 2006, the process of change in corporate governance would appear to be reaching a point of culmination” (Jackson and Miyajima, 2007, p.42), and the change in the J model can be regarded as stagnant⁴².

Shifting to R firms, Russian firms have evolved and adopted the liberal model. The year 2001 may be regarded as a turning point when corporate laws were revised into liberal ones, and at the same time many Russian firms transnationalized and began to finance in the foreign market. However, a single point of culmination in Russia is not clear. On the one hand, globalization continues to function, and inflows and outflows of FDI, IPO, and international M&As have sharply increased. On the other hand, hybridization may be a more appropriate view of Russian liberalization. The government enhanced its influence and corporate ownership (that is, insider control) does not reveal much change. Labour systems and management also indicate a kind of inertia. We judge change and continuity in R firms using the standards of financial characteristics and internal characteristics related to boards (management) and employment. From the viewpoint of employment, R firms lie between the US model and the J model.

Figure 5 Corporate governance of R firms

	Outsider board	Insider board
Related finance	Inverse hybrid	R model
Market finance	US model	Hybrid

	Market Employment	Informal and Relational Employment
Related finance	Inverse hybrid	R model
Market finance	US model	Hybrid

Since we do not have similar data similar for J firms, I characterize R firms based on our

⁴² *The Economist* labeled harmonized Japanese system as JapAnglo-Saxon capitalism. (*The Economist*, December 1st 2007, p.19)

questionnaire research and that of others. Figure 5 shows the same pattern with Japan, and the R model has become more diverse. Aukutsionek, Dyomina, and Kapelyushnikov (2007) shows 60% ownership by insiders and the government, while questionnaire research indicates 63% of internal promotion (that is, insider boards). Multiplying both indicators, outsider ownership and outsider boards occupy a small part, 14.8%, and an overwhelming majority of R firms, both hybrids and inverse hybrids. Table 19 is similar to the empirical survey of Japan: traditional R firms (40% of the sampled firms), hybrids with liberal ownership (23% of the sampled firms), inverse hybrids with insider ownership and outsider managers (8% of the sampled firms), and US model with outsider ownership and management (29% of the sampled firms). R firms have kept their characteristics in the same way as J firms.

The hybridization of J firms and R firms means that ownership, management and employment have shown that path-dependent institutions and institutional complementarities have functioned in diverse ways. In my view, the mechanisms of internal governance based on labour systems and employment will remain of continued importance in characterizing a firm's classification.

Conclusion

From the viewpoint of a varieties of capitalism (VoC) perspective, Russian capitalism is still in dynamic transition. Based on formal rules, Russia may be classified as an LME (liberal market economy). The image and practice, however, are quite different from this approach. Two points are often forgotten. First, the institutions include not only formal ones but also informal ones, and considered from the evolution of the transformation, of Russian capitalism, we cannot ignore the impact of the informal sector. The second point is that the written rule often differs from its implementation. "The formal liberal rules do not always function by the book, and globalization does not always play a role as an institutional anchor in Russia" (Mizobata, 2008). Although many researchers focus on business-state relations, the official rules are not automatically observed by all actors, and there are many instances of mutual intervention between business and the state. Then, we must rethink the form of capitalism in Russia. In practice, Hanson and Teague (2007, p.163) criticize the application of VoC to Russia. Hanson (2007) insists that Russia has specific characteristics which cannot be explained by VoC. In short, he characterizes Russia as "a dual economy in which the rules of the economic game have been evolving rather differently in different sectors." (Hanson, 2007, p.869) If so, we can ask if those characteristics and institutions represent only a transitional stage toward a pure LME or CME (coordinated market economy), or if they will survive in the relative long-term and distinguish Russia from other system.

This survey demonstrates norms of R firms, and it has evolved with a hybridization with liberal reforms. If we consider change and continuity with respect ownership and employment, the

hybridized Russian way may be one of relative stability. Japanese capitalism is usually identified with a CME, but it is approaching or converging to an LME (an adoption of the US model). In practice, the simple conversion has not occurred and institutional complementarities with diverse difference are ongoing. With J firms, we can recall informal institutions and gaps between formal rules and their implementation, as R firm teach us. *The Economist* in 2007 concluded the Japanese hybrid way with gradual and deliberate assimilation. However, I do not claim that J firms and R firms are identical in the capitalist model. On the contrary, in both firms, there are some decisive differences like long-term relations, mobility and skill-formation. Although hybridization is different in both countries, we can observe some similar trends. 1) Ownership indicates not only global changes (an increase of foreigners) but also the national tradition. 2) In employment, irregular workers have increased, and labour systems and internal labour markets are changing. 3) Firms do not lose characteristics as a “quasi-community”, and interests of stakeholders are not disregarded. The third trend clearly indicated that endogenous factors have maintained a decisive role in corporate systems.

The picture of corporate governance in Russia and Japan consists of both change and continuity in institutions and the emerging diversity explains the sustainability and flexibility of corporate institutions.

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