

Control and Coordination of Functional Subsidiaries in Japanese Corporate Groups

Dissertation Evaluation for DBA Candidate, Akira Mitsumasu

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Overview This dissertation is a thorough and insightful investigation into a very under-researched area of Japanese business and economy: groups formed by core companies and the constellations of subsidiaries that provide them with products and services. Japanese *keiretsu* or *kigyo shudan* have received much attention over the years, but this is one of the few pieces of research, especially in English, that studies this organizational form. This research is particularly relevant because it appears that Japanese companies are increasingly moving towards this form, spinning off divisions or taking equity stakes in companies and managing them in a state that is neither entirely arms length nor entirely internalized. The dissertation combines a very thorough review of the theoretical literature with primary research on five corporate groups, and review of publicly available literature and data more generally on corporate groups. It is exploratory research, which takes an inductive approach to drawing insights from existing theory and the empirical phenomenon. Mitsumasu uses these insights to develop a typology of functional subsidiaries, and a framework to determine how subsidiaries of different types should be managed.

The dissertation is focused around two questions: Why do companies establish corporate groups and how do they manage these groups? Mitsumasu argues that the answer to the first question, at least in Japan, diverges somewhat from academic theory. From his interviews with Japanese companies, he concludes that corporations establish groups as a means to enhance their flexibility. Management of subsidiaries always involves balancing between control and delegation, and firms are able to adjust this balance, depending on the nature of the subsidiary, its capabilities and the environment. He finds that companies are quite skilled in doing this, and have systems and practices that enable them to achieve this balance, such as an internal department for subsidiary management, shared culture, and performance guidelines.

The answer to the question of how subsidiaries should be managed is, it depends. Mitsumasu proposes a typology of subsidiaries, and argues that the balance between delegation and control varies by type, and firms must first understand the type of subsidiary before they make decisions on how it is managed. Mitsumasu's typology is around the degree of dependency and existence of external partners for parent and subsidiary. The insight here is that one must consider this from the perspective of both parent and subsidiary, and dependency is likely to be asymmetric. Based on this framework, he gives concrete recommendation on how the subsidiary should be managed.

Evaluation This is an excellent thesis, which fulfills the requirements for a DBA thesis. The purpose of a DBA thesis is to bridge academic theory and business practice. DBA theses should show a strong understanding of academic research in a topic area, but also bring in insights from the world of practice. It

should have a strong research methodology based on primary empirical research, and the DBA candidate should demonstrate a good understanding of the strengths and weaknesses of that methodology. The final product should appeal to and bring insights to both academics and practitioners, and help both groups see a problem in a different light. It should be more practical than an academic thesis and provide guidance to practitioners, but should not follow in the trap of so many popular business books written for practitioners, which offer description and ideas with little empirical or logical support.

This dissertation achieves all of these objectives very well. Mitsumasu begins with a very detailed and thorough review of the academic literature pertaining to parent/subsidiary relationships. This is not merely a description of the literature, but a critical and thoughtful review. Mitsumasu reads the academic literature through the eyes of a practitioner, always asking, “what are the practical implications of this?” and “what should I do as a business person?” This makes the academic, theoretical portions of the dissertation refreshing and insightful, and perhaps somewhat challenging to those whose range of vision is limited to theory. The empirical portion of the thesis is centered around 5 case studies, based on detailed and thorough interviews and review of archival studies. Mitsumasu also brings in his own experience at JAL, and joined a study group for managers of corporate group affairs. While these discussions were off the record, participation in this group clearly deepened his insights into the phenomenon.

Mitsumasu presents some of the gaps between academic theory and practical insights in a very novel way—through tables that compare statements from both perspectives. This approach is very new and fresh, and is one that should be used more in research. It is not easy, though. There are many ways to explain gaps between academic and practical insights—for example, boundary conditions or context-specific contingencies. Nevertheless, Mitsumasu takes to this challenge with good results. For example, he highlights the fact that while academic literature treats delegation and control as two completely different and incompatible things, managers have found ways to manage both at the same time, and treat them more flexibly.

Mitsumasu asserts that managers must consider the type of subsidiary before determining the best way to manage it, and bases his typology on a combination of academic theory and findings from the cases. He observes that while companies may have sophisticated ways to balance control and delegation, they are not always so good at knowing when to use what tool when. While the purpose of subsidiaries is to enhance flexibility, firms may not always manage their subsidiaries in a way that achieves this objective. The framework for classifying subsidiaries and determining management type depending on subsidiary type, provides a useful tool for managers.

The research methodology of the dissertation can be classified as good and adequate to answer the research questions. The 5 case studies are well done, and are the result of primary research with the companies. Mitsumasu positions these case studies well—as opportunities to compare academic theory with reality and to prepare some conjectures as to how and why they diverge. The 5 companies are only a small subset of Japanese companies, but they are in different industries and show quite different approaches to managing subsidiaries. More cases would have been useful—but it is also very difficult to

get companies to talk about this issue of corporate groups, and Mitsumasa's ability to get access to these companies and get the access he did, is quite impressive. He does a good job supplementing the cases with his own experience, participation in a study group, and other written material. He has a good understanding of the limits of his methodology, and the kinds of claims that he can make based on these limits.

The thesis is written and organized very effectively. Mitsumasa begins by positioning his research question very clearly in academic and practitioner literature, and asks some research questions. He lays out his approach clearly. There are times when he deviates somewhat from his main story—for example, in sections on skills in Japanese companies, and on the history of the Japanese economy—but these are interesting sections that provide deeper insights, and he positions them so they are clear to the reader how they fit into the bigger picture of the thesis. He effectively uses tables and figures, and organizes his case studies in a way that makes things readable. The large structure of the thesis is relatively clear and easy to follow.

Suggestions for further development As any piece of research, this dissertation has limitations. Some of these are areas that can be fruitfully developed and improved as the dissertation is revised for publication. Others offer starting points for new research. Though the thesis is well written and well organized when viewed in the big picture, it is easy to get lost in the details, and lose one's way temporarily. This is because there is so much going on. There is so much information, so many insights, so much theory that it is hard to organize and process at times for the reader. As part of the point of a dissertation is to display the knowledge of the author, this is not necessarily a bad thing, but the thesis needs to be streamlined for publication.

The framework of looking at supplier and buyer dependence as asymmetric, and classifying different subsidiaries into these different categories is very interesting, and definitely useful. I would like to see this developed even more and perhaps tested in a larger sample. It would be useful, for example, to test some propositions based on the framework—whether or not subsidiaries that are managed according to this framework more successful, for example. Also, it is important to the argument of the paper that these are functional subsidiaries—subsidiaries that supply business function—products services for example, rather than subsidiaries that are in new strategic business areas for example. This is an important and sensible thing to look at, but this distinction could have been made clearer, along with a clearer case of why functional subsidiaries.

Another area that could be developed further is of lock in—which Mitsumasa finds to be a major problem faced by companies. Relationships get fixed, and in particular in Japan, where the problem is not only investments in specific assets but also in social obligations and long-term ties which are difficult to break. Since Mitsumasa finds that companies adopt a corporate group structure to enhance flexibility, it would be interesting to learn more about the problem of lock-in and ways to avoid it or minimize its problems. Also, there is little attention to ownership, and the role that ownership plays. When would a company choose a 100% owned subsidiary, versus a 51% owned, versus a 33.4% or a 10%? What are the implications of these ownership levels for governance?

Finally, more of a comparative perspective would have been useful. Is this phenomenon specific to Japan? What are the particularities of the Japanese institutional setting that lead to this organizational structure, and the various problems and advantages? Do firms in other countries also manage themselves as groups, and is the logic the same or different? This would be useful in the book, and also very useful starting point for another paper.

These concerns about the thesis can be addressed when the thesis is developed further for publication, depending on the audience for the publication. Practitioners will probably be looking for something much simpler and more streamlined, with a few strong, clear and practical ideas. Academics will be interested in the rigor of the development of the framework, they will be looking for more empirical testing, and more attention to issues such as ownership and comparative institutional context. But these are all issues that can be considered in the future.

We believe that in the current state, this dissertation more than fulfills the requirements for the DBA, and is an excellent piece of work.

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