A DOCUMENTARY ON THE MAJOR ISSUES RELATING TO THE CONCEPT OF STAKEHOLDER AND THE EFFECT THIS HAS ON THE DEVELOPMENT OF GOVERNANCE IN THE UNITED STATES AND JAPAN.

Roy Santanu[1]

Abstract.

This paper concentrates on the major issues relating to the concept of stakeholder and the major developments in the two significant economies of the U.S. and Japan. The focus of my discussion seems to reflect on the following contemporary issues:

- The traditional type of stakeholders.
- Is the model of stakeholder necessary?
- Who are the stakeholders in a corporation?
- How does neglecting stakeholders lead to environmental damage?
- The changing trend of stakeholder interest towards corporate ethics and moral issues.
- The origin of the Japanese system of corporate governance with a close look at the *Zaibatsu* family structure and *Keiretsu* principles of governance.
- The sliding stakeholder model of U.S. leading to takeovers, mergers and downsizing.
- Japanese corporate governance at its peak.
- The changing phase of governance in U.S. with speedy recovery after a long phase of takeovers and downsizing.
- The changing pattern of governance in Japan including the main-bank power curtail and changing theories of life-time employment. We also experience the emergence of American style of corporate governance in Japan.
- The impact of non-statutory codes on the economy of U.S. and Japan. The origin of the audit committees, its recommendations, purpose, advantages and disadvantages. The Japanese system of management and its altering prototype.
- The effect of globalization and its impact with modern technology in U.S. and Japan. The shock of negative globalization on poor countries.

[1] **Roy Santanu** is an Associate of Saha & Ray Advocates. He may be reached at santanu.roy@saharay.com

Introduction:

Stakeholder comes from the word 'stake'. A stake is an interest or a share in an undertaking or a claim.[2] Traditionally commentators state that there were two stakeholders – Primary and Secondary stakeholders.[3] Primary stakeholders had a formal, official or contractual relationship, and all the other stakeholder relationship in an organization were secondary stakeholders.

During the early twentieth century organizations used to adopt Taylor's Principles of Scientific Management[4] approach, which involved tight policy decisions, division of responsibilities, efficiency related to job description and division of labour. Elton Mayo[5] dealt with organizational structures and came up with more complex management theories relating to human relation at work, human needs and motivation through self development.

Konosuke Matsushita (Japanese Industrialist) challenged the Western model by stating "*We are going to win and the industrial West is going to lose out …*" Matsushita followed the *Kaizen* formula where there is continuous improvement through challenges, rules and norms. Also they learned from failures and invented new ways of working.[6] Japan's step towards industrial growth may be due to the reputation of the firm, product quality, customer satisfaction and employee loyalty.

W Edward Deming (American academic) during the 1990's brought the trend of improvement in product quality in companies.[7] This was a significant step towards globalization. IBM's success story has been due to effective employee and management development as a result of employee training, knowledge and performance.[8]

In 1994 an organization[9] came-up with the scheme of classifying stakeholders into core, strategic and environmental stakeholders. The core and strategic stakeholders are those groups that are essential and vital to the organization. Environmental stakeholders are the remaining stakeholders in a company who are not core and strategic stakeholders.

[2] Carroll Archie B. and Buchholtz Ann K. (University of Georgia), *Business & Society – Ethics and stakeholder management* (Fourth ed. 2000, South-Western College Publishing) Ch.3, p.65.
[3] Carroll A., *Business and Society: Ethics and Stakeholder Management* (1993, South-Western Publishing, Cincinnati) 62.
[4] Taylor F, *Principles of Scientific Management* (1911, Harper and Row, New York).
[5] Mayo E, *The Human Problems of Industrial Civilisation* (1933, Macmillan New York).
[6] Matsushita K, *The Matsushita Perspective – A Business Philosophy Handbook* (PHP Institute Inc., Tokyo & New York) Part I&II.
[7] Oakland J. S, *Total Quality Management: Text with Cases* (1996, Butterworth-Heinemann, Oxford).
[8] Lollins J. C. and Porras I. J, *Build to Last: Successful Habits of Visionary Companies* (1995, Century, Random House, London).
[9] "The Toronto Conference: Reflections on stakeholder theory" [1994 Second Toronto Conference on Stakeholder Theory] (April, 1994) 33(1) *Business and Society* 82-131.

So let us find out that is the concept of stakeholder model in an organization necessary?

Thomas Donaldson and Lee Preston[10] developed three values of stakeholder model in a firm. Firstly they state that it is '*descriptive*', which gives an idea of the corporation. It deals with the nature of the organization,[11] the methods managers consider,[12] how the firm works with corporate constituencies[13] and how corporations are controlled.[14] It deals with the associations that are related to the commercial world.

Some recent U.S. Court decisions have damaged the so-called "*Business Judgement Rule*", which was inclined towards the monetary benefits of the stockholders. In *Unocal Corp. v. Mesa Petroleum Co.*[15] and *Unitrin, Inc. v. American General Corp.*[16] the Delaware Courts required directors to show that a 'reasonable' risk persisted before aggressive intimidating takeover offers. In *CTS Corp. v. Dynamics Corp. of America*[17] the Supreme Court of the United States held, "… *condition acquisition of control of a corporation on approval of a majority of the pre-existing disinterested shareholders.*" (Indiana Statute). This reasonableness coupled with the impact of a takeover gave rise to the trend towards stakeholder laws in United States. Even if the Corporate Governance model in Japan exists within a strongly linked and consistent set of stakeholders, the concept of stakeholder laws were unfolded.

Secondly stakeholder model is '*instrumental*', because it gives good management practices and aims at growth and financial stability of the organization. Kotter and Haskett[18] states that "… *all managers care strongly about people who have a stake in the business – customers, employees, stockholders, suppliers, etc.*" Kotter and Haskett also observed that successful organizations like Hewlett-Packard and Dayton Hudson – even though different – have a stakeholders' perception. For example a paper and packaging industry can be weighed down by an environmentalist for its extensive production which led to destruction of the Tropical Rain forest. Kevin Gibson[19] is of the view that, stakeholder is an individual or group with power to be a threat or benefit.

According to Goodpaster[20] "strategic thinking leads to the elimination of ethics in favour of prudence." Goodpaster's view is true to certain extent when I come across one of the worst

---

10 Donaldson Thomas and Preston Lee, "The stakeholder theory of the corporation: Concepts, Evidence, Implications" (1995) 20(1) *Academy of Management Review* 65-91.

11 Brenner S. N. and Cochran P., "The stakeholder theory of the firm: Implications for business and society theory and research" (1991) *Paper presented at the annual meeting of the International Association for Business and Society, Sundance, UT.*

12 Brenner S. N. and Molander E.A., "Is the ethics of business changing?" (1977) 58(1) *Harvard Business Review* 54-65.

13 Wang J. and Dewhirst H. D., "Board of Directors and stakeholder orientation" (1992) 11 *Journal of Business Ethics* 115-123.

14 Halal W. E., "The new management: Business and social institutions in the information age" (1990) 2(2) *Business in the Contemporary World* 41-54.

15 *Unocal Corp. v. Mesa Petroleum Co.* [1985] Del. Supr. 493 A. 2d 946.

16 *Unitrin. Inc. v. American General Corp.* [1995] Del. 651 A. 2d 1361.

17 *CTS Corp. v. Dynamics Corp. of America* [1987] U.S. Supr. 481, 69, 87.

18 Kotter J. and Haskett J., "Corporate culture and performance" (1992) *New York: Free Press* 59.

19 Gibson Kevin, "The Moral Basis of Stakeholder Theory" (August 2000) 26(3) *Journal of Business Ethics* 245-257, 245.

20 Goodpaster K. and Holloran T., "In Defence of a Paradox" (October 1994) 4(4) *Business Ethics Quarterly* 428.

industrial accidents in the history of North America – Valdez[21] tanker crash in Alaska. Lack of emergency services, risk information exposures, training, management policy (to reduce cost EXXON reduced tanker crews), business practices (Captain of tanker being intoxicated – most unethical behaviour), and many other factors led to the environmental disaster by EXXON.[22] Bligh Reef had the highest number of birds and mammals.[23] After the crash environmentalist Daw Lawn[24] states that "*What surprised me most was the silence*". EXXON still continues to do good business even today, in spite of ethical miscalculations in the past.

The reconciliation thesis[25] holds a contrary view to that of Goodpaster. It states that firms can run well with ethics. Let us take for example the Tylenol Crisis[26] case, where Johnson & Johnson took out 31 million bottles of Tylenol capsules from the market. This was done in order to trace the bottles where someone has contaminated cyanide. Seven people died of poisoning before the cleaning action could be launched. Johnson & Johnson had to spend $50 million to save their good will of the company. This is how being ethical saved Johnson & Johnson's reputation.

Lastly, stakeholder model is '*normative*', for the reason stakeholders' are acknowledged by their significant contribution to the organization. Friedman's[27] concept of corporate social responsibility is a good example of the normative concept.

According to David Wheeler and Maria Sillanpää[28] alignment of values and dialogue-based empowered relationship are the two basic principles that are common to corporations for its success. Japanese electronics and automobile industry during the 1950's and 1960's had inexpensive and inferior goods. The alignment of values made such a devastating change in the Japanese companies in 1970's that now-a-days nobody has any uncertainty as regards reliability of Honda or Sony goods.[29] This same change in the alignment of values were undergoing in US retail sectors like Wal-Mart.[30] The Body Shop International's Ethical Audit Team Managers are of the view that alignment of values require – "*i. a commitment to share perspectives and benefits … and ii. a willingness to allow collective values to develop and evolve.*"[31]

---

[21] Miller Pamela A. (Artic Connections 3/99), "EXXON VALDEZ OIL SPILL: Ten Years Later" [Technical Background Paper] *Alaska Wilderness League* – Web-link: http://articcircle.uconn.edu/SEEJ/Alaska/miller2.htm#_edn10

[22] PricewaterhouseCoopers, "Crisis Management: be prepared" (26/04/2002) – Web-link: http://www.excelsior.pwcglobal.com/knowledge/article.asp?artID=992

[23] "Exxon Valdez oil spill: the aftermath" – Web-link: http://nj.essortment.com/exxonvaldezoil_regp.htm

[24] Alaska Department of Environmental Conservation, (April 1989).

[25] Gibson Kevin, "The Moral Basis of Stakeholder Theory" (August 2000) 26(3) *Journal of Business Ethics* 246.

[26] Tamara Kaplan (The Pennsylvania State University), "The Tylenol crisis: How Effective Public Relations Saved Johnson & Johnson" – Web-link: http://www.personal.psu.edu/users/w/x/wxk116/tylenol/crisis.html

[27] Friedman M., "The social responsibility of business is to increase its profits" (September 13th 1970) *New York Times Magazine* 32, 33, 122 & 126.

[28] Wheeler D. and Sillanpää M, "Including the Stakeholders – The Business Case" (1998) 31(2) *Long Range Planning* 201-210.

[29] The Body Shop International: 1992, 1993 and 1994, *The Green Book 1, 2, 3*; and the Body Shop International: 1996 and 1998, *The Values Report* 1995 and 1997.

[30] Wheeler D, "Memorandum by the Body Sop International" (1992) [A Community Eco-audit Scheme. 12th Report of the Select Committee on the European Communities. *House of Lords Paper* 42 (HMSO, London) 58-59].

[31] Sillanpää M, "The Body Shop Values Report – Towards Integrated Stakeholder auditing" (October 1998) 17 *Journal of Business Ethics* 1445.

Also a dialogue based empowered relationship helps flourishing conventional conglomerate in US and Japan. Today's growing economy only adds to complexity and uncertainty.[32] Therefore the best way of achieving success is to base decisions on maximum amount of available information.[33]

Patrick Minford[34] states that a "… *stake-holding economy* … [with] *regulations, explicit or implicit,* … *compel firms and individuals to act against their own interests in order to give advantage to some group with which they deal – for example employees, customers, suppliers.*"

On the other hand share holders are the owners of a company just as I am the owner of my laptop. It would be unjustifiable if anyone questions me as to how I should use, operate, repair or sell the laptop. In the same way shareholders would never run a company, where the rights of operating the company and its profits are not favouring them. Too much regulation between the shareholder and the company, thereby depriving the profits of the shareholders investments and control, may be dangerous. As a result the shareholder would refrain to invest in the organization.

These areas of control, rights and management make a level playground for corporate governance theory and practice to evolve. Governance is a bridge of communication between the owner, ruler and the end-user as regard better functioning and profitability of a company. Now we understand that the concept of stakeholder model plays a vital role in an organization.

"*Stakeholders have the potential to influence or affect the firm,*
and/or be influenced or affected by it."[35]

David Wheeler and Maria Sillanpää[36] has categorised in *Annexure - A*, the areas which influence Stakeholder Corporation. Archie B. Carroll and Ann K. Buchholtz[37] have further classified the stakeholders in a firm into five major heads of Government, Employees, Community, Owners and Consumers. Furthermore these five heads operate either under the Political or Social or Technological or Economic environment in a society.

During mid 1993, in America shareholders had rather immense pronouncement in the management of an organization they own, whereas workers had to a great extent fewer powers. Also in Japan during that phase managers had independent control to supervise their organizations keeping in mind the profit of the employees, associated companies and shareholders.[38]

---

[32] Bryan L. and Farell D, *Market Unbound: Unleashing Global Capitalism* (1996, John Wiley and Sons, London).
[33] Wheeler David and Sillanpää Maria, *The stakeholder corporation* [The Body Shop – Blueprint for maximizing stakeholder value] (First ed. 1997, Pitman).
[34] Minford Patrick, *Markets not stakes* (First ed. 1998, Orion Business Books) Ch.1, p.1.
[35] Freeman R. E, *Strategic Management: A Stakeholder Approach.* (1984, Pitman, Boston, MA).
[36] Wheeler David and Sillanpää Maria, *The stakeholder corporation* [The Body Shop – Blueprint for maximizing stakeholder value] (First ed. 1997, Pitman) Part-I, Ch.1, p.5.
[37] Carroll Archie B. and Buchholtz Ann K. (University of Georgia), *Business & Society – Ethics and stakeholder management* (Fourth ed. 2000, South-Western College Publishing) Ch.3, p.68.
[38] The Economist (1993:52); *Also see:* Donaldson Thomas and Preston Lee E., "The stakeholder theory of the corporation: Concepts, Evidence, Implications" (1995) 20(1) *Academy of Management Review* 69.

It is also important to know that, who are the stakeholders in an organization.

The change in stakeholder participation / involvement of an organization in due course of time can be analysed by the Nestlé case.[39] Nestlé S.A. during 1970's dominated the marketing of infant food formula. Wide-spread marketing in the third-world countries of Nestlé infant food products gave rise to malnutrition, diarrhoea and child death in the under developed countries. It was alleged that Nestlé's marketing tricks encouraged women to choose bottle feeding, thus resulting in a decline in breast feeding which is safer and more healthful. Moreover mothers who were poor tried to curtail the nutrition expense by over-diluting the milk powder to make it last a little longer.[40]

Nestlé probably had stakeholders consisting of Suppliers, Customers, Owners and Employees before the infant formula controversy. After the controversy Nestlé's stakeholder map might have involved additional stakeholders like Unions, Retail Traders, General Public, Infant Formula Action Coalition (INFACT), International Baby Food Action Network (IBFAN), U.N. Agencies (WHO, UNICEF), International Nestlé Boycott Committee (INBC) and many more.[41] So we can infer from the Nestlé case that the concept of understanding, who our stakeholders are, is very important.

On one hand Ross Laboratories[42] was able to develop a co-operative relationship with UNICEF & WHO for its sale of infant formula in third-world countries, by joining them in a program to promote infant health. Nestlé's negligence to trace a particular stakeholder amounted to consumer boycott on the other hand.[43]

Not only does ignoring stakeholder and stakes affect the organization, sometimes it becomes a threat to the environment. Hooker Chemical Company[44] converted Love Canal into a Toxic Waste Dumping Area. In old companies, environmental theories was based on the principle of requisite variety,[45] but in the present world endurance of an organization is dependant on its adjustment to environmental friendly modifications. Due to excessive toxic waste dump in Love Canal area of Niagara Falls about 235 houses near the canal are empty.[46] The owners left the houses because of sudden heavy release of continuous toxins. Environmentalists and the U.S. Government is trying to make Love Canal again protected, however, till today Love Canal is not fit for human habitation. In the present situation environment is an area of utmost concern. The fauna and flora, land and water, atmosphere are all precious for our wellbeing, but lack of importance on environmental issues by the corporations have led to misuse of the environment, degeneration and endangerment.

---

[39] Sethi Prakash S., *Multinational Corporations and the Impact of Public Advocacy on Corporate Strategy: Nestlé and the Infant Formula Case* (1994, Boston: Kluwar Academic).
[40] "Nestlé's Costly Accord" *Newsweek* (February 6th, 1984) 52.
[41] Freedman Alix M., "Nestlé to Restrict Low-Cost Supplies of Baby Food to Developing Nations" and "American Home Infant-Formula Giveaway to End" (February 4th, 1991) *Wall Street Journal* B1.
[42] Savage Grant T. *et al* (eds.), "Strategies for Assessing and Managing Organizational Stakeholders" (May 1991) Vol. V, No.2 *Academy of Management Executive* 64.
[43] Post James E., "Assessing the Nestlé Boycott: Corporate Accountability and Human Rights" (Winter 1985) *California Management Review* 115-117.
[44] Beauchamp Tom L. and Elliott Martha W., "Hooker Chemical and Love Canal" in Beauchamp Tom L., *Case Studies in Business, Society and Ethics* (1983, Eaglewood Cliffs, NJ: Prentice Hall) 107-115.
[45] Ashby W. R, *Design for a Brain* (1952, Wiley, New York).
[46] Maugh II Thomas H., "Toxic Waste Disposal a Growing Problem" (May 25th,1979) 204 *Science* 64.

Multinational corporations have an increasing list of items as regards responsibilities form 1960's to 1980's. During the 60's attention in the ethics of multinational company has been mounting.[47] As overseas venture increased internationally, efforts were made to implement codes of behavioural structure and proclamation of standards, both intra-firm and globally, into protected strategies for accomplishment. In the early 70's the UN Conference on Trade and Development (UNCTAD) devised a voluntary code of behaviour for transnational enterprises.[48] Neither intercontinental codes nor state laws has been able to check exploitation in all places, and in several occasions, corporate improvement has been tittle-tattle.[49] During the 1980's translational trade organizations such as OECD[50] and the WTO[51] adopted voluntary codes, while non-governmental organizations for businesses such as the World Business Council for Sustainable Development[52] (WBCSD) and the International Chamber of Commerce[53] (ICC) were not pessimistic as regard the stretch of best practice.

The Caux Round Table[54] implemented global system for cosmopolitan firms. North America and Japan acknowledged five central principals which go well beyond those exemplified in the former codes. These are: 1) stakeholder liability, 2) social fairness, 3) mutual support, 4) environmental apprehension and 5) evasion of illicit manoeuvre and corrupt practice. However this drift in business strategy may be shifting, as an escalating number of conglomerates spot profitability and shareholder interests in their work report as essential target. At the same time they assert corporate responsibility for stakeholders beyond their employees, to include both the environment and the community.

The idea of stakeholder interest has changed considerably by increasing the scale of corporate ethical concern from its original foundation of safety for its own employees to the insertion of environment, community and the society.[55] For example, after the catastrophic episodes with

---

[47] Servant-Schreiber Jean Jacques, *Le defi americain.* (1968, Hamish Hamilton, London); Vernon Raymond, *Sovereignty at bay.* (1971, Basic Books, New York) and Barnet Richard and Mueller Ronald, *Global reach: the power of multinational corporations.* (1974, Simon and Schuster, New York).

[48] Szirmai A, "The dynamics of socio-economic development – An Introduction" (January 2004, Forthcoming: Cambridge University Press) [Draft of Chapter 13: The International Economic and Political Order Since 1945] – Web-link: http://www.tm.tue.nl/ecis/Seminars/EddySzirmai180204.pdf

[49] Bureau of Democracy, Human Rights and Labor, 'Country Reports on Human Rights Practices – 2000' [Afghanistan] (February 23rd, 2001, U.S. Department of State) – Web-link: http://www.state.gov/g/drl/rls/hrrpt/2000/sa/721.htm

[50] "USCIB Position Paper on codes of conduct" – Web-link: http://www.uscib.org/index.asp?documentID=1358

[51] Stern R. M. and Terrell K. (University of Michigan), "Labor Standards and the World Trade Organizations" *Research Seminar in International Economics [Discussion Paper No. – 499]* – Web-link: http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r499.pdf

[52] Green Cross International, 'Globalization and sustainable development: Is Ethics the Missing Link?' (February 21-23, 2002, Earth Dialogues Forum) – Web-link: http://www.earthdialogues.org/documents/synthesis.html

[53] Rovillos R. D. *et al* (eds.), "When the 'Isles of Gold' turns into Isles of Dissent: A case study on the Philippine Mining Act of 1995" (April 15th, 2003, Oxford, England) *Indigenous Peoples, Extractive Industries and the World Bank* – Web-link: http://forestpeoples.gn.apc.org/Briefings/Private%20sector/eir_internat_wshop_philippine_case_eng_apr03.htm

[54] Centre for Ethical Business Cultures, "Telling the Minnesota Story – The principles attract interest around the world" [E-mail: mail@cebcglobal.org] – Web-link: http://www.cebcglobal.org/Publications/TELMNSTY.htm

[55] Donaldson John, *Business ethics: a European casebook.* (1992, Academic Press, London) 63-65.

the Brent Spar[56] incident and its Nigerian actions,[57] Shell has realized to look up at its environmental record on many strategies and to have a say to the local regions in which it works. Shell has shaped small management teams in charge for benchmarking the best practices in principal operations for instance flaring and venting, environmental certification, contractors' contributions, energy efficiency, solid waste reduction, drilling discharges, reducing drill cuttings on the seabed and reducing emission.[58] Shell recognized eight spots of assurance in its Statement of General Business Principles: 1. Profitability, 2. Investment, 3. Integrity, 4. Politics, 5. Health, safety and the environment, 6. Community, 7. Competition and 8. Communication.[59]

In reality it is thorny to imagine any government or NGO to relate business ethics. The best that can be done is to follow what conscientious conglomerates are already doing in reply to stakeholder and environmental issues. These principles may be summed as follows: 1) give rational support to well-informed groups seeking modification, 2) support schemes from governments and international organizations which take into account corporate interests as well as others, 3) be aware of a special conscientiousness for the disadvantaged, 4) extend best practices wherever it is possible, 5) persuade suppliers, contractors, co-ventures and partners to follow best-practices and 6) provide credible evidence that they are fulfilling their objectives, as Shell had done with rural communities in Scotland.[60]

Frank Birkin and David Woodward believe in a similar way on the principle '*Think globally, act locally*'.[61] The '*act locally*' consists of two fundamentals: i. the ecosystem and ii. the social system. Smith is of the view that environmentalism has four factors which shape the dynamics of the company: i. *increased public concern*, ii. *green consumerism*, iii. *diffusion of green values* and iv. *increased state regulation*.[62]

Johanna Kujala[63] developed a framework for analysing moral issues in stakeholder relations. For doing this framework he interviewed managers representing the chemical, forest, food,

---

[56] "Brent Spar dossier", Shell in the U.K. – Web-link: http://www.shell.com/home/Framework?siteId=uk-en&FC1=&FC2=%2FLeftHandNav%3FLeftNavState%3D1&FC3=%2Fuk-en%2Fhtml%2Fiwgen%2Fabout_shell%2Fbrentspardossier%2Fdir_brent_spar.html&FC4=%2Fuk-en%2Fhtml%2Fiwgen%2Fproductsandservices%2Fprod_serv_impulse.html&FC5=

[57] "Oil related environmental issues", Shell Nigeria – Web-link: http://www.shell.com/home/Framework?siteId=nigeria&FC2=/nigeria/html/iwgen/our_environment/oil/zzz_lhn.html&FC3=/nigeria/html/iwgen/our_environment/oil/dir_indexoilrel_1505_1543.html

[58] *Shell and the Environment,* (1995, Group Public Affairs, Shell International Petroleum Co., London); *Shell UK Environmental Report* (1995, Shell UK Ltd., London); *Health, Safety and Environmental Report* (1997, Royal Dutch / Shell Group of Companies, The Hague).

[59] Williams Corinne (Learning Consultant, Leadership Development. Shell International Limited), "There and Back Again: An Organisational Adventure" [Demonstrating Overcoming Adversity] (February 28th, 2004) CSR Conference – *Business is Changing* – Julian Hodge Lecture Theatre – Cardiff Business School. {Central theme if the discussion – *Certain events in the mid-nineties such as decommissioning of Brent Spar and events in Nigeria – affecting Shell reputation – Shell's effort to understand expectation of society, business conduct, new principles.*}

[60] *Report to Society* (1998, Shell UK Ltd., London) 2.

[61] Birkin F. and Woodward D. [Staffordshire Business School], "Management accounting for sustainable development – Part 3: Stakeholder analysis" (September 1997) 75(8) *Management Accounting* 58-60.

[62] Smith D, *Business and the Environment* (1993, Paul Chapman).

[63] Kujala J, "Analysing moral issues in stakeholder relations" (July 2001) 10(3) *Business Ethics: A European Review* 233-243.

metal, textile and manufacturing industries. In this project he first divided the stakeholders into eight groups of customer, employees, owners, competitors, suppliers and dealers, community and government, financiers and environment. The moral issues mentioned in the interview in relation to the eight stakeholder groups are classified in *Annexure – B* from the finding of Kujala. Honesty was included both in information and advertising issues under the relationship with customers.

Origin of the Japanese system of corporate governance.

Japanese model of corporate governance has time and again been portrayed as a well-organized and practical substitute to the corporate governance machinery available in the Western countries, and in particular, in the 'Anglo-Saxon' financial system of the United States of America. In the Anglo-American world, managerial incentive schemes (like stocks, performance based compensation), hostile takeovers and the labour market for top managers (Managers' rewards) were regular characteristics. Japanese fashion of corporate governance was conventionally based on scrutinizing & involvement of large shareholders[64] and creditors[65] (normally banks). Existing structure of corporate governance in Japan started during the wartime period. The financial system before war and during war-time Japan was dominated by big, diversified multinationals (*Zaibatsu)* which controlled one quarter of all capital resources in the nation, and much well-built share in contemporary heavy industries.[66] The *zaibatsu* were a family unit, as large as a corporations, supervised through investment groups, which in turn, held a huge number of shares in a first tier of subsidiaries.

The *zaibatsu* closure reforms started just after the end of the war and by 1950 most *zaibatsu* ended. The consequential transformation of ownership was of massive magnitude, and over 40% of all corporate assets in Japan changed hands.[67] The shares relocated were again sold by the investment company's Liquidation Commission, using numerous schemes which were planned to guarantee a scattered ownership structure.[68] In reality, subsequent to the end of reforms, shareholding by individuals in Japan achieved an all-time high of approximately 70% during 1949.[69] This blueprint of possession, in which the principal shareholders are non-financial and financial companies rather than individuals or investment funds, still subsist in Japan. One probable rationale, why the stage of dispersed ownership in Japan was so squat, is that the transformed companies in Japan were exposed to aggressive takeovers, given the scattered ownership and the low equity prices in the Tokyo Stock Exchange soon after the war.[70] Dispersed ownership might have been substituted by strong family ownership. It seems that strong family ownership did not happen in Japan, because the old capital of the pre-war

64 Shleifer A. and Vishny R, "Large Shareholders and Corporate Control" (1986) 94(3) *Journal of Political Economy.*
65 Diamond D, "Financial Intermediation and Delegated Monitoring" (1984) 51(3) *Review of Economic Studies*.
66 Okazaki T, 'The Japanese Firm under the Wartime Planned Economy', in Aoki M. and Dore R. (eds.), *The Japanese Firm: Sources of Competitive Strength,* (1994, Oxford University Press, Oxford).
67 Bisson T, *Zaibatsu Dissolution in Japan* (1954, University of California Press, Berkeley, CA).
68 Hadley E, *Antitrust in Japan* (1970, Princeton University Press, Princeton, NJ).
69 Aoki M, *Information, Incentives and Bargaining in the Japanese Economy* (1988, Cambridge University Press, Cambridge).
70 Miyajima H, "The Transformation of Zaibatsu to Postwar Corporate Groups – From Hierarchically Integrated Groups to Horizontally Integrated Groups" (1994) 8(3) *Journal of the Japanese and International Economies*.

period was destroyed by the American occupation reforms, which exposed the affluent *zaibatsu* family units of most of their assets.[71]

In America family units hold nearly 60% of the outstanding corporate equity, whereas in Japan the analogous figure is only to some extent more than a quarter.[72] Conversely, banks hold over 20% of all outstanding corporate equity in Japan, versus zero percent in the USA.[73] Therefore in Japan there are usually steady owners, rather than liquid portfolio investors. Hence there is elevated constancy of ownership pattern in Japan, showing slight change in corporate ownership over episodes of eight or additional years.[74] Besides concentration and constancy, there were cross-shareholding arrangement of Japanese concerns within the bank-centered corporate groups (*Keiretsu*).[75] Japanese firms were bank-financed, and money owing relations, much like ownership knots, tended to be steady.[76] There is no suspicion, that shareholders and banks have played a central role in the corporate governance of Japan, without any help of western corporate governance mechanisms. Long-term incentives, bag a much finer share of a US executive's salary than they do for CEOs in Japan.[77]

Kester's[78] Japanese corporate business skeleton after the Second World War included, *i. implicit contracting founded on trust, ii. extensive reciprocal shareholdings and trade agreements with few stakeholders, iii. managerial incentives toward overall corporate growth and iv. selective intervention and coordination by key stakeholders.* The *Keiretsu* conglomerates had two mantras of governance - Funds and Guarantees through which they spread out their set of connections in two tracks. Corporations used to make a mesh of their merchant (commonly in order of low prices) to barter for procurement guarantees and future improvements. Also, corporations used to appoint workforces (generally on a very low wage basis) with lifetime employment assurance. As a result the enormous reserves generated profits, which may be used as investments to make energetically growing markets.[79] Both the *zaibatsu* and the *keiretsu* structures have their own potency, at diverse stages of maturity. The stakeholder model may be more rapid in developing companies and markets with lesser costs because it erects on a set of individual relationships and guarantees.[80]

---

71 Karpoff J. and Rice E, "Organizational Form, Share Transferability, and Firm Performance: Evidence from the AN CSA Corporations" (1989) 24(1) *Journal of Financial Economics.*
72 Weinstein D. and Yafeh Y, "On the Costs of a Bank-centered Financial System: Evidence from the Changing Main Bank Relations in Japan" (1998) 53(2) *Journal of Finance.*
73 Weinstein D. and Yafeh Y, "Japan's Corporate Groups: Collusive or Competitive? An Empirical Investigation of *Keiretsu* Behaviour" (1995) 43(4) *Journal of Industrial Economics.*
74 Yafeh Y. and Yosha O, "Large Shareholders and Banks: Who Monitors and How" (1999) [Unpublished manuscript] – The Hebrew University, Jerusalem.
75 Flath D, "Shareholding in the *Keiretsu*: Japan's Corporate Groups" (1993) 51(3) *Review of Economic Studies*.
76 Aoki M. *et al* (eds.), 'The Japanese Main Bank System: An Introductory Overview', in Aoki M. and Patrick H. (eds.), *The Japanese Main Bank System* (1994, Oxford University Press, Oxford).
77 Sheard P, 'Interlocking Shareholdings and Corporate Governance in Japan', in Aoki M. and Dore R. (eds.), *The Japanese Firm: The Sources of Competitive Strength* (1994, Oxford University Press, Oxford).
78 Kester Carl W, *Japanese takeovers – The global contest for corporate control* (1991, Mass, Boston).
79 Schulz M, *Monetary Policy and the Flow of Funds in Japan* (1998, Marburg, Germany).
80 Horiuchi A, "Liberalization and Stability in the Japanese Financial System – An Overview" (1995) *University of Tokyo, Department of Economics, Discussion Paper* 95-F.

Sliding stakeholder model of U.S.

Probably the worst shattering attack on the stakeholder model of US were in-numerous takeover challenges that came to light during the 1980's. Once the declaration of a takeover is final the prices of stock goes higher, for example RJR/Nabisco.[81] Even though a takeover significantly improved the assets of a shareholders, other stakeholders evidently had an impediment in the form of suspension, factory closure, redundancy and streamlining. These activities created a counterattack in the form of anti-takeover laws passed by twenty nine states.[82]

Even after the passing of the anti-takeover laws, Bank of New York tried to takeover Pittsburgh's Mellon Bank. Bank of New York offered 20% premium to market for Mellon's shares.[83] As Mellon Bank rejected the offer, Bank of New York charged Mellon Bank for neglecting its shareholders. Analysts believe that Mellon Bank stayed away from the acquisition as because its share price rose considerably by 68% over the past two years.[84]

The next thrashing gust of failure in the stakeholder model was downsizing and mergers, which came during the 90's. According to the American Management Association people were loosing jobs at an alarming rate of about 3,100 jobs a day. There were normally three main causes for the downsizing of companies: i. Competition from around the globe, ii. Increased productivity & efficiency and iii. To enhance share prices.[85] Norris states that "There is no quicker way to get your stock price up than to announce plans to fire a lot of workers."[86] Researcher Art Boudros could not find any rationalization to sustain the downsizing of *Fortune* 100, and therefore refers to it as the "myth of downsizing".[87]

In mergers also shareholders will be supplemented by the new creation. Like downsizing, merger proclamations are over and over again acknowledged with an increase in the stock worth of the corporations concerned. Approximately about 11 to 15 percent job cuts may be presumed when companies' merge.[88] For example the merger between Chase Manhattan and Chemical Bank presented each of the 12,000 employees a pink slip even though the stock rose by 12 percent.

---

[81] Burrough B. and Helyar J, *Barbarians at the Gate* (1990, Harper & Row, New York).

[82] Meade N. L. *et al* (eds.), "An Anti-takeover Amendment for Stakeholders" (November 1997) *Journal of Business Ethics* 1651-1659.

[83] Murray M. and Frank S. E, "Bank of New York Withdraws its Bid for Mellon" (May 21st 1998) *Wall Street Journal* p.A3.

[84] Reich R. B, "The New Meaning of Corporate Social Responsibility" (Winter 1998) *California Management Review* 8-17.

[85] American Management Association, *Survey of Down-sizing and Assistance to Displaced Workers* (1995, AMA Report, New York).

[86] Norris Floyd, "You're Fired (But Your Stock is Way Up)" *New York Times* (September 3rd, 1995) Sect. 4, p.3.

[87] Boudros Art, "The New Capitalism and Organizational Rationality: The Adoption of Downsizing Programs, 1979-1994" (September 1997) *Social Forces* 229-250.

[88] "Impact of Big Mergers Questioned" *Pittsburgh Tribune-Review* (April 30th 1998) p.B3.

Japanese Corporate Governance at its boom.

Satisfactory performance of an organization may either direct to autonomy of management's powers or supervising the company by large and stable shareholders.[89] When firm performance is reduced, the creditors, and the main bank interfere to start a streamlining sketch by regulating the inadequate board.[90] Kaplan and Minton[91] are of the view that poorly performing firms are more likely to have a bank executive named in their board of directors than well-performing companies. Whereas Yafeh and Yosha[92] state that, Japanese bank do not play an important role in reshuffling the managerial private benefits of firms whose performance is satisfactory. The rationale is possibly that banks are chiefly concerned in shielding their outstanding loans, because their equity stakes are undersized in comparison with the size of the debt. For this reason banks get involved only when debt repayment is at jeopardy.

In fact, the Japanese financial system was performing fine without antagonistic takeovers that repeatedly involved expensive legal actions. In between 1960 and 1990 growth rate in Japanese economy was at its peak and almost tripled real incomes during that period as shown in *Annexure – C*. If we compare Japan's huge success of income creation with US, we find that during that particular phase US was able to incorporate an increasing labour force, while employment in Japan declined. It was also not required to tie the reward of management to the share prices and build managerial myopia. The Japanese technique of corporate governance, was not pessimistic to long-term investment. This kind of governance practice led to company growth and spread of market share all over the globe.[93]

Change in Corporate Governance of U.S.

When the stock goes up both the CEO and the shareholder benefit.[94] The other stakeholders benefit by the mercy of the management. Michael Useem brought the concept of shareholder wellbeing in the early 1990's.[95] Michael Useem's finding was that Managers were only concerned about the shareholders. This change of managing various other stakeholders rather than concentrating only on stockholders was the process of development of soft laws of corporate governance. For example, The California Public Employees' Retirement System (CalPERS) has voted against Apple's board of directors and filed numerous shareholder proposals at other companies.[96] A survey in 1992 of 2,361 Corporate Directors by

---

89 Aoki M and Patrick H, *The Japanese Main Bank System: Its Relevance for Developing and Transforming Economies* (1994, Oxford University Press, Oxford).
90 Berglof E. and Perotti E, "The Governance Structure of the Japanese Financial *Keiretsu*" (1994) 36(4) *Journal of Financial Economics*.
91 Kalpan S. and Minton B, "Appointments of Outsiders to Japanese Boards: Determinants and Implications for Managers" (1994) 36(4) *Journal of Financial Economics*.
92 Yafeh Y. and Yosha O, "Large Shareholders and Banks: Who Monitors and How" (1999) [Unpublished manuscript] – The Hebrew University, Jerusalem.
93 Hoshi T, "Benefits and Costs of the Japanese System of Corporate Governance" (1997) 26 *Global Economic Review*.
94 Crystal Graef, "Almost Any Way You Figure It, Executive Pay Remains Irrational" (December 3rd, 1995) *Los Angeles Times* p.D2.
95 Useem M [Cambridge, MA], *Executive Defense* (1993, Harvard University Press).
96 "1997 Corporate Governance Targets" *CalPERS News* {http://www.calpers.ca.gov} (February 1997).

Wang and Dewhirst[97] found that, all the directors were responsive and had lofty magnitude of patience to answer questions of every stakeholder group in an organization.

Now-a-days businesses understand an extraordinary tempo of environmental change due to factors such as globalization, regulation, speedy makeover & propagation of expert technical skills, capital markets, structure of governance and progress toward 'market-based socioeconomic systems'.[98]

> "*A country's financial success is heightened when it takes into account the needs and interests of its various stakeholders – employees, shareholders, customers and so on – rather than focusing solely on increasing the wealth of its shareholders.*"[99]

Change in Corporate Governance of Japan.

In spite of the noticeable triumph of the Japanese model of corporate governance, in 1990s some worries about its supremacy began to materialize. All firms in Japan didn't continue enduring relationships with their share and debt holders. Ever since the early 1980s many other organizations in Japan have chosen to sponsor themselves through laissez-faire dealings and to have smaller number of secured share holders. The new predilection of the Japanese firms and the deteriorating significance of the banks are noticeably marked. Moreover many Japanese firms found the structure of bank investment combined with stable shareholding to be inadequate.[100]

Japanese Banks apply authority on the performance of customers' organization and it is not limited to period of financial distress. This influence is deliberate to serve the bank's interests as a key lender, leading to non-profit maximizing behaviour of the company. Banks provoke clients to borrow more than profit maximization would deserve, and pressure patron firms to implement low-risk and low-return speculation tactics, resulting in poor performance of bank-dependent corporations in contrast with self-sufficient companies.[101] Main-bank client firms of Japan invest more in imported know-how than other self-governing corporations. This outlook states that banks choose low R&D expenditure and push firms to invest in imported technology as an alternative. For example, Toyota and Honda (Automobile industry) or Sony (Electronics industry) do not keep close ties with a main bank.[102] Allen, Carlin and Mayer have argued that bank investment and control is appropriate for the sponsoring conventional manufacturing industries, but is inappropriate for financing modernization.[103]

---

97 Wang J. and Dewhirst H. D, "Board of Directors and the Stakeholder Orientation" (February 1992) 11 *Journal of Business Ethics* 115-123.
98 Schneider Marguerite [Email: mschneid@adm.njit.edu], "A Stakeholder Model of Organizational Leadership" (March-April 2002) 13(2) *Organization Science* 209-220.
99 Beaver William, "Is the Stakeholder Model Dead?" (March-April 1999) *Business Horizons* 8-12.
100 Weinstein D. and Yafeh Y, "On the Costs of the Bank-centered Financial System: Evidence from the Changing Main Bank Relations in Japan" (1998) 52(2) *Journal of Finance*.
101 Morck R. and Nakamura M, "Banks and Corporate Control in Japan" (1999) 54(1) *Journal of Finance*.
102 Montalvo J. and Yafeh Y, "A Micro-econometric Analysis of Technology Transfer: The Case of Licensing Agreements of Japanese Firms" (1994) 12(2) *International Journal of Industrial Organization*.
103 Allen F, 'Stock Markets and Resource Allocation', in Mayer C. and Vives X. (eds.), *Capital Markets and Financial Intermediation* (1993, Cambridge University Press, Cambridge); *Also see:* Carlin W. and Mayer C, "Finance, Investment and Growth" (1999) *CEPR Discussion Paper No.* 2223.

The drift of bank finance may be inappropriate in this age of soaring technology and even if the Japanese system of corporate governance was tolerable in the past, it may no longer be satisfactory for the advanced Japanese economy. Now the question of uncertainty is that, if banks are so good at supervising the performance of their client firms, then, how come they cannot convalesce so many of their outstanding loans? Horiuchi argues that the Japanese government sheltered the banks from antagonism, and guaranteed their endurance through the '*convey system*'.[104] Neither *Amakudari* [Government bureaucrats taking positions on retirement in private financial institutions] improve bank performance, nor were the remunerations of bank supervisors tied to performance. At the same time it led to awful banking practices because banks did not think about taking too much risks and sponsoring poor investment projects.

Banks were constrained in the scale of their performance when organizations became open to fund themselves in domestic and foreign equity & bond markets. Individual reserves were still channelled to the banking system.[105] Banks were not accountable of headstrong moral-hazardous behaviour, but the shifting patters of corporate finance pointed out that the large Japanese companies are no longer reliant on bank debt like the American equivalents. Therefore there is modest possibility for the persistence of Japan's bank-centred scheme of corporate governance.[106] Sakura Bank, the main bank of the Mitsui group, has negotiated merger with Sumitomo Bank,[107] DKB-Fuyo-IBJ group merged to survive in the competitive market and[108] Sanwa Bank's merger with Tokai Bank and Asahi Bank[109] adds to the list of antagonism among Japanese banks. The Japanese system of bank-centred corporate governance is one of the reasons of the present macroeconomic crisis in Japan.[110]

U.S. stocks and markets have emerged better than the Japanese stakeholders' counterparts during the last decade. One valid reason for the high valuation of U.S. stocks has fairly been due to an investment bubble.[111] The crash of 2000-2001 brought down stock valuations worldwide. By May 2001, U.S. stocks lost 16% of their February 2000 peak, Japanese Stock however were falling even more brutally, and lost 20% of their peak.[112] During this catastrophe capital tend to be fasten to the U.S. markets rather than running off into even more obscure markets. Neither the shareholders have gained in Japan's stakeholder society ever since 90s, nor the fundamentals of the economy have improved. Also many stakeholder contracts have become corrupt during the recession.[113] One of the strong points of the Japanese stakeholder system was the synchronized approach to monetary and fiscal policy.

---

[104] Horiuchi A, "Financial Fragility in Japan: A Governance Issue" (1998) *University of Tokyo Discussion Paper* F-5.

[105] Hoshi T. and Kashyap A, "The Japanese Banking Crisis: Where did it come from and How will it End?" (1999) *Brookings Papers on Economic Activity*.

[106] Hoshi T. *et al* (eds.), "The Role of Banks in Reducing the Cost of Financial Distress in Japan" (1990) 27(1) *Journal of Financial Economics*.

[107] Fair Trade Commission, "Merger between Sumitomo Bank Ltd. and Sakura Bank Ltd." (December 25th, 2000) – Web-link: http://www2.jftc.go.jp/e-page/press/2000/20001225bank.pdf

[108] 'East Asian Keiretsu' – Web-link: http://members.efn.org/~dredmond/keiretsu.html

[109] Ostrom Douglas, "Sanwa Bank to merge with Tokai, Asahi Bank" (March 24th, 2000) 12 *Japan Economic Institute (JEI) Report* – Web-link: http://www.jei.org/Archive/JEIR00/0012w1.html

[110] Morck R. and Nakamura M, "Japanese Corporate Governance and Macroeconomic Problems" [Unpublished manuscript] (1999) *University of British Columbia*.

[111] Kester, Carl W, "Governance, Globalization and Forces of Change" (October 2000) *Shanghai Stock Exchange Lecture,* Shanghai.

[112] Schulz M, "The Return of 'Structural' Monetary Policy? The Case of the Bank of Japan" (2001) *Monetary Macro & Finance Research Group Conference Paper* Queens University, Belfast.

[113] Jensen Michael C, "Corporate control and the politics of finance" (1991) 4(2) *Journal of Applied Corporate Finance* 24.

The concept gradually changed when the economy shifted into lower gear during 70s and the Japanese asset bubble burst in the early 90s. By this time fiscal and monetary policies are deadlocked and the economy was in the midst of several structural crisis.

Today, lifetime employment comprises less than 20% of the labour force in Japan. Unemployment is ever-increasing and even old lifetime contracts conked out in the form of early retirements and through political pressure. Bureaucracy scandals are thriving in Japan. Government and law and order are regarded as hopeless in the Dragon country. In the past the Government was weak and inexperienced so it had a restricted role in the earlier stakeholder setups. Corporations are constantly hoaxing their customer relations.[114] For example, Mitsubishi Motor company firstly avoided customer complaints for nearly 30 years, secondly, company's management also mishandled a sexual harassment case in US, and lastly top management unable to improve corporate governance sought alliance with DaimlerChrysler AG.[115]

Investment corporations, which were barred by the American occupation armed forces after the Second World War, became lawful again in Japan during 1998. Holding companies could now materialize as new company on the corporate governance panorama, even though they are dubious to become commanding.[116] American-style of corporate governance apparatus' have begun to infiltrate Japan. One distinguished example is the altering patterns of white-collar reward. Labour markets are fetching more energetic executives and activities of employees between firms are becoming more frequent. A more prolific market for senior managers is developing, making managerial '*career concerns*' a significant feature of Japanese Corporate Governance.[117]

Another power approaching for transformation, is the partial economic slow-down which has made long-standing cross-sharing arrangements hard to maintain, as organizations from different levels of financial hitches are lured to liquidate their holdings in other firms. To this point the range of equity stakes held by companies for extended periods of time has not been a pervasive trend.[118] If banks merge to improve from their existing depression, perchance through diversification into financial activities for instance underwriting, then banks might remain powerful players on the Japanese Corporate Governance picture.[119]

After the bubble burst in 1991, Japanese banks have only been able to organize 60% of their bad debts. Another factor for the blocked finance is cross shareholdings, but slowly it is diminishing.[120] Japanese Banks have become vulnerable as because they have lost their function as main banks to key companies. Moreover to unwind jammed credit for small and

---

[114] Hirotsugu S. and Hitoshi A, "The Japanese Corporate Governance System and Firm Performance: towards sustainable growth" (January 2003) *Research Center for Policy and Economy* Mitsubishi Research Institute, Inc. – Web-link: http://www.esri.go.jp/jp/prj-rc/macro/macro14/05mril_t.pdf

[115] "Mitsubishi Motors – Problems and Problems" – Web-link: http://www.mitsubishisucks.com/mitsubishi-motors.html

[116] Khanna T, "Business Groups and Social Welfare in Emerging Markets: Existing Evidence and Unanswered Questions" (2000) *European Economic Review.*

[117] Aoki M, *Information, Incentives and Bargaining in the Japanese Economy* (1988, Cambridge University Press, Cambridge).

[118] Suzuki K, "Inter-corporate Shareholding in Japan: The Significance and Impact of Sales of Stakes" [Unpublished manuscript] (1998) *London Business School.*

[119] Hamao Y. and Hoshi T, "Bank Underwriting of Corporate Bonds: Evidence from Japan After 1994" [Unpublished manuscript] (2000) *UCSD.*

[120] "Potential Economic Competitiveness Ranking" (2001) *Japan Centre for Economic Research (JCER),* Tokyo.

medium size enterprises, the Fiscal Investment and Loan Program (FILP) started to pull out reserves from national postal savings to the private sector.[121] The financial system of Japan is still in a horrific figure and incapable of allocating resources smoothly. Balance Sheets are still in Japan based on historical corporate finance recycle costs, and subject to a wide range of caution. Corporations still have many directors drawn in the management, and the Japanese bureaucratic system is still a close stakeholder setup with a single political party in charge of legislative and governance control for the whole of the decade.[122] Disclosure and corporate control in Japan are still inadequately not opaque. Therefore Japanese private investors abstain from investing in Japanese capital markets and foreign investors also do not have desirability to invest in such a financial setup.[123]

Role of Non-statutory codes (soft laws) in the governance structure of U.S. and Japan.

Audit committees are frequently referred to as one of the reasons for the success of corporate governance in a particular economy. A good audit committee can be demanding and challenging equipped with modern principles of governance. Audit committee originated in the USA some 60 years ago, through the Securities Exchange Commission (SEC) 1940. By 1977 a list of Audit committees were introduced in US companies. In 1987 the Treadway Report[124] (Report of the National Commission of Fraudulent Financial Reporting) listed eleven recommendations to improve the efficiency of audit committees, which ere to be the future foundation for corporate governance in USA and world-wide. The guidelines proposed were as follows:

1. Adequate resources and authority to discharge their responsibilities.
2. Auditors should be informed, vigilant and securitization of the company's financial reporting process and internal process systems.
3. A review of the management's evaluation of the independence of the company's public accounts.
4. A close watch at the quarterly and annual reporting process.
5. SEC to mandate establishment of an Audit committee in all public companies.
6. SEC to command audit committees to maintain annual report stating responsibilities and activities during a year.
7. A written charter to be developed for the committees.
8. Every year the committee should review management plans and services.
9. Communication between management and committee on accounting issues.
10. To ensure that internal auditing in the financial report is appropriate and for effective co-ordination with independent public accountant.
11. A review of managements' program as regards future business strategies and company's code of ethics.

[121] Corbett Jenny, 'Changing corporate governance in Japan', in Balling M., Hennessy E. and O'Brien R. (eds.), "Corporate governance, financial markets and global convergence" (1998) 33 *Financial and Monitary Policy Studies* [Dordrecht/Boston/London] 112-136.
[122] Jensen Michael C, 'The modern industrial revolution, exit, and the failure of internal control systems', in Chew D. H. (ed.), *Studies in international corporate finance and governance systems – A comparison of the U.S., Japan and Europe* (1997, New York/Oxford) p.18-37.
[123] Schulz M, "Shareholder vs. Stakeholder Values – Finance and Economic Change." (2001) *Japanese German Center Berlin Conference Volume* [Shareholder vs. Stakeholder value – The Case of Japan] Berlin.
[124] Vinten G. (Associate Dean and Professor of Management, Southampton Business School), "Corporate governance: an international state of the art" (1998) 13(7) *Managerial Auditing Journal* 422-424.

With the above issues impacting on the financial markets and globalisation of business, corporate governance system a mechanism virtually unknown 30 years ago, has now stretched its roots in the world parlance. In 1992 Committee of Sponsoring Organisations' (COSO) report on *internal control – an integrated approach*, presents the definition of management, audit committee, internal auditors, independent accountants, legislators and regulators.[125] In the U.K., however audit committees have received wide spread support and their institutions (Audit committee) were brought into use by the publication of the *Code of Best Practice* by the Cadbury Committee in 1992.[126] The Hampel Report recommends that the audit committee should keep the nature and extent of non-audit services under review.[127]

The audit committees also serve a number of purposes which are advantageous for a better governance. The committee provide assistance to the board to perform duties and can improve the objectivity and credibility of financial reporting. The audit committee have independent control to stop executive directors getting involved in illegal acts. The committee also acts as a bridge of communication between the different patterns of management control to improve accounting functions.[128] The audit committee should be aware of their actions, as because their actions should not encourage division of the board of directors. They should also keep a close contact with the management but that doesn't mean that, they will encroach on management responsibilities and become a cause of the conflict. Even though audit committees are costly and time consuming with no power to report their recommendation to shareholders, still they have changed governance practices from good in the 90s to better in the present scenario.[129]

In Japan the annual general meeting and even the board of directors are regarded as ceremonial, with more than 99% of the companies unquoted and few executive directors. This system of mutual shareholdings with unclear accountability and chaotic hero's and anti-hero's, gives more stress on employees and customers (Even though coupled with companies having no corporate ethics and no customer satisfaction schemes) rather than on shareholders.[130] Such a system of governance is due to the reason that Japan has stable shareholdings, which indicates that management do not have to be so seriously concerned. This feature is an opposite contrast of the USA model of corporate governance.

An interesting development in Japan is in its organization of the board of directors. Now-a-days Japanese board of directors consists of outside directors (who are not executives or employees). Also we find that a majority of the board of directors should be comprised of outside directors [Principle 3].[131] Japan needs to encourage corporations' corporate

---

[125] *ibid.*

[126] Masters C. (Business Finance Faculty, Southampton Institute of Higher Education), "Audit Committees, the Cadbury Code and Audit fees" (March 21-22, 1997) *Seventh National Auditing Conference,* Canfield, U.K.

[127] Keasey K. *et al* (eds.), *Corporate governance: economic management and financial issues* (1997, Oxford University Press, Oxford).

[128] Forker J, "Corporate Governance and Disclose Quality" (1992) 22(86) *Accounting and Business Research* 111-124.

[129] Cadbury, Sir A. (Chairman), *Report of the Committee of the Financial Aspects of Corporate Governance* (1992, Financial Reporting Council, London Stock Exchange, London).

[130] Kim E. H. *et al* (eds.), "EVA and shareholder value in Japan" (Winter 1997) 9(4) *Journal of Applied Corporate Finance (USA)* 94-114.

[131] "Revised Corporate Governance Principles" (October 26th, 2001) *Japan Corporate Governance Committee – Japan Corporate Governance Forum* – Web-link: http://www.ecgi.org/codes/country_documents/japan/revised_corporate_governance_principles.pdf

governance (which is based on the availability of suitable management, directors, shareholder and stakeholder information) for a secured Japanese economy in the future years to come.

The increasing number of financial scandals in USA (Enron, WorldCom, Xerox, etc.) and the pressure of executive payments structure in UK during 2002, makes path for the non-executive directors (NEDs) to be considered – Lord Young of Graffham *considers it to be not a lot*. It is time now to reflect the role of NEDs according to the Department of Trade and Industry (DTI) review on the role and effectiveness of the NEDs by Darek Higgs[132] (2002). The Higgs Report deals with the approaches to harnessing NEDs, director's obligation towards targets, etc. The new Combined Code was issued by the Financial Reposting Council on 23rd July, 2003 which listed companies of UK must comply with. The minutes of the code are as follows:[133]

- Increase in the number of independent non-executives.
- Chairman's role has been increased particularly to include leadership, communication with shareholders and contribution to constructive relation executive and non-executive directors.
- Board to appoint one independent non-executive as senior independent director.
- NEDs greater time commitment.
- Increased responsibilities of the NEDs.

Globalisation creates economic development or interests for powerful nations.

Globalisation can be understood as '*the process of economic, political and social change that occurs when all agents in a system have access to a common pool of resources*'.[134] It is the connection of one company in a state owning another company in a different country or operating in another nation. Also globalisation is the engagement in an action at a distance. This space/gap of distance makes a distinction between practices of governance in different organizations. Hence geographical presence of a business at a particular place creates diversity in corporate governance (For example the system of corporate governance in the United States of America and Japan.) Business ethics when becomes institutionalised, regular and rule-based then ethical thought and imagination becomes smooth, structured and broad.[135]

Modern technology is also another important aspect for developing the study of business ethics in a globalised economy. That's the reason why Intel Corporation is still the world leader of Pentium Chip manufacturing in America, and Tokyo Tsushin Kogyo (Sony) the reputed brand globally for colour televisions [Japan]. Globalisation is a borderless world,[136] where internationalization of knowledge and technology, production and consumption spell

[132] Higgs D, *Review of the role and effectiveness of non-executive directors* (2002, DTI Publications).
[133] Mayo Charles, "Higgs files" (August 2003) – Web-link: http://www.elexica.com *Also see:* http://www.frc.org.uk
[134] Veseth M, *Selling globalization: the myth of the global economy* (1998, Lynne Riener Publishers, London).
[135] Petersen V.C, 'Habits of the heart: agreements for an ineffable social grammar' (2000) ISBEE World Congress Sao Paulo; *also see*: McPhail Ken, "The ethical challenges of globalisation: Critical reflections on the ISBEE 2nd World Congress in Sao Paulo, Brazil" (January 2001) 10(1) *Business Ethics: A European Review* 78-82.
[136] Ohmae K, *The borderless world: power and strategy in the interlinked economy* (1990, HarperPerennial, New York).

the end of democracy,[137] and where enriching multiplicity is in danger of extinction, even ruined, by Disney and McDonald.

Globalization opens intellectual enhancement and public skylight of the world by offering right of entry to the wide ocean of cultural and social resource. New style of living, knowledge, entertainment and correspondence affects established cultural traditions and mind-set. Product standardization and the domination of American society products are the most noticeable global developments. Obscure are the challenges to gender discrimination in Japanese companies' worldwide.[138]

The awful examples of negative globalisation are multinational companies to patent genetic components of plants,[139] animals[140] and even the human umbilical cord,[141] thereby putting a stop to companies in poor countries from using these to manufacture medicines, cosmetics and foodstuffs and forcing them to purchase extravagantly from the multinationals. Right to use global wealth is managed by markets (Capital, Financial, Goods, etc.). A valid rationale for sluggish globalisation is because markets do not work smoothly[142] (Dominant nations/corporations check the powerless form entering the market or they enforce conditions on them).

The global world order is being performed by international institutions like the IMF, the World Bank and WTO who are under imminent pressure from the welfare of powerful nations.[143] Worldwide we must trust the global associations with the mission of regulating markets, curtailing the interests of the powerful players through a stakeholder outlook.

Conclusion:

United States of America had rapid improvements in its economy after a hasty phase of takeovers and downsizing. AMEX proclaimed on September 13th, 2002, its future changes in the new corporate governance rules.[144] The rule change was needed to increase disclosure

---

137 Thurow L, *The future of capitalism: how today's forces shape tomorrow's world* (1996, William Morrow, New York).

138 "U.N. Panel Urges Japan To Keep Up With West On Women's Rights" (July 9th, 2003) *United Nations Foundation [UN Wire]* – Web-link: http://www.unwire.org/UNWire/20030709/449_6375.asp

139 Khor Martin (Director), "A Worldwide fight against biopiracy and patents on life" *Third World Network (TWN)* – Web-link: http://www.twnside.org.sg/title/pat-ch.htm

140 "Clash Over Canadian Refusal to Patent GE Animals Heads to Court" (May 20th, 2002) *The International Foundation for the Conservation of Natural Resources (Biotech Website)* – Web-link: http://biotech.ifcnr.com/article.cfm?NewsID=276

141 Butler Declan, "Patent on umbilical-cord cells is rejected in Europe" (June 17th, 1999) *nature [World Conference on Science – UNESCO/ICSU]* – Web-link: http://www.nature.com/wcs/b48.html

142 Collier J, "Editorial: Globalization and ethical global business" (April 2000) 9(2) *Business Ethics: A European Review* 71-75.

143 Sutherland P, "Global independence, the corporation and the changing world" (1999) 10(3) *Business Strategy Review* 47-55.

144 Akin Gump Strauss Hauer & Feld LLP (Attorneys of Law) "Corporate Governance Alert: AMEX approves proposed changes to corporate governance rules" (October 25th, 2002) – Web-link: http://www.martindale.com/xp/Martindale/Legal_Articles/article_abstract.xml?artid=477EB7EE1F&searchaop=728&industry=728&grptype=&STYPE=AB&LNAME=&FNAME=&FN=&STS=&CRY=&CP=1&RR=&ascope=&keyword=&orgid=&hp=1&searchid=20040302111805582810 7&lastxmonths=&lastxdays=&PRV=LL2&nomodify=&attid=&lid=&grpid=

requirements, strengthen board oversight and audit committee responsibility and provide for increased shareholder rights for AMEX-listed companies.

In Japan the outcome of restructuring corporations and market situation has opened opportunities for foreign corporations. The ending of the old stakeholder relationships have unwrapped a market for foreign investment banks to put forward their services as outside intermediaries with deep market knowledge. Foreign suppliers are entering corporate network of Japan as suppliers. Moreover due to the devaluation of old stakeholder values asset prices have become again competitive. Unfortunately, these changes will still need some time until they can work in concert and create wonders for Japan.

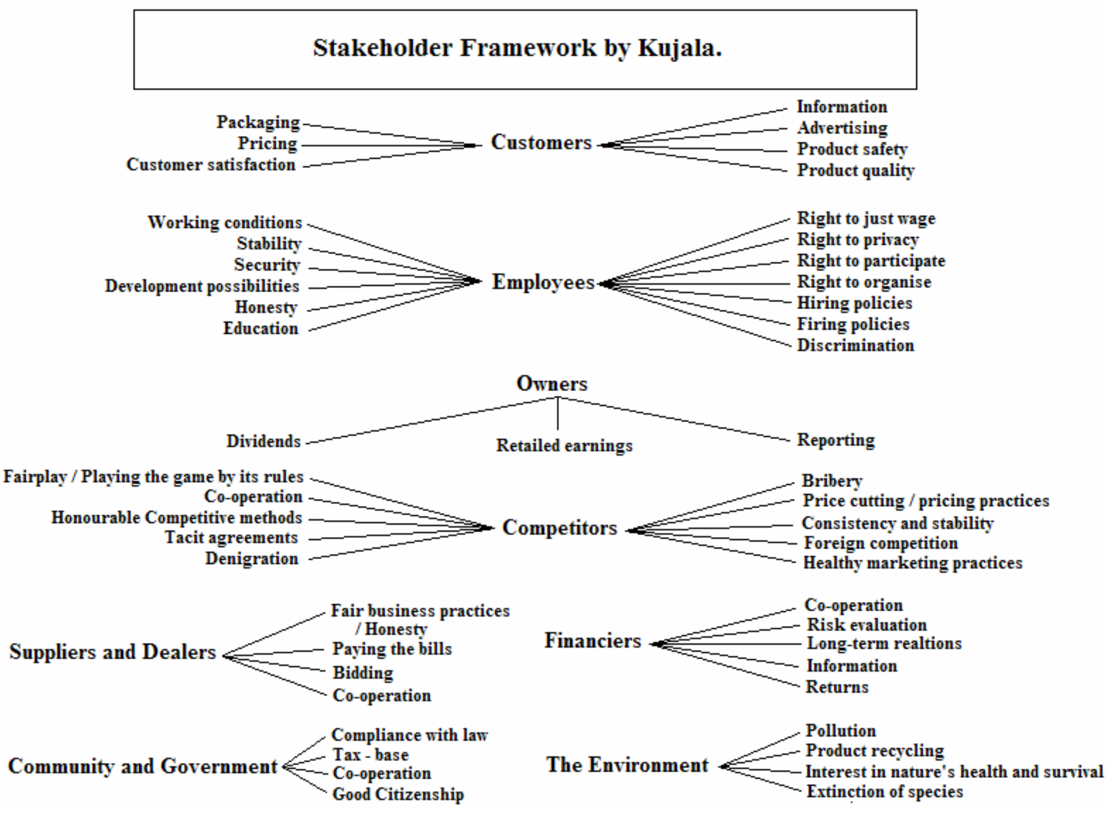
To conclude, it is perhaps useful to recall that the bank-centred system of Japanese corporate governance emerged during the 1950s as the outcome of the economic environment of the early post-war era. It seems that new institutions, which are most suitable to the present economic environment, are emerging. Yet in the long run, the new methods of corporate governance are likely to help the Japanese economy recover from the slow-down and maintain global competitiveness of Japanese companies.

Therefore global regulation followed by a firm enforcement is not a practicable approach. Apart from of its restrictions, international law can control future corporate misconduct by posing the real threat of costly legal action, high resolution costs, lower stock prices and reduced access to capital break-up. Building conscientiousness among the general public, creating a corporate culture towards reliability, improving monitoring and compliance reviews, broden sanction of major instruments and encouragement of greater opinionated will are all necessary stepladder towards higher standards of corporate governance.

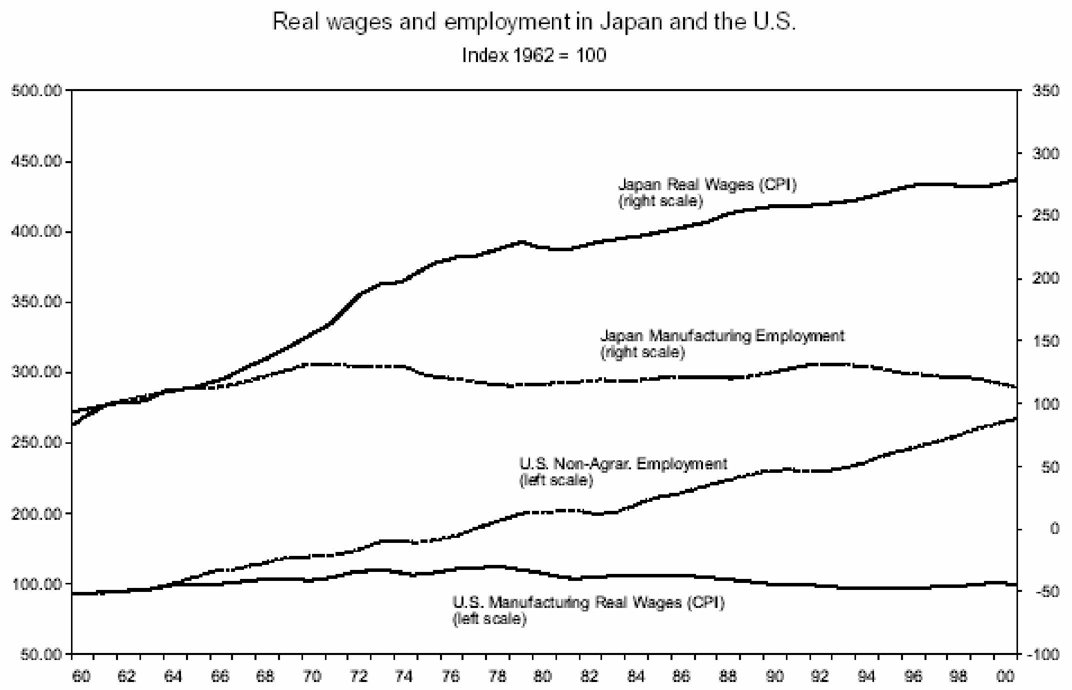
Annexure – A.

THE STAKEHOLDER CORPORATION	
• Primary Social Stakeholders: 1. Local Communities, 2. Suppliers and Business Partners, 3. Customers, 4. Investors, 5. Employees and Managers.	• Secondary Social Stakeholders: 1. Government and Civil Society, 2. Social and third world pressure groups and unions, 3. Media and commentators, 4. Trade bodies, 5. Competitors.
• Primary Non-social stakeholders: 1. The natural environment, 2. Non-human species, 3. Future Generations.	• Secondary Non-social stakeholders: 1. Environmental Pressure Groups, 2. Animal Welfare Pressure Groups.

Annexure – B.



Annexure – C.



Remark: Right and left scales have the same dimensions, they were shifted to provide a better overview. For the U.S., hourly wages, and for Japan, monthly wages were used to calculate real wages. Nominal wages were discounted with their respective CPIs. Unfortunately, no similar series for the two countries were available.

Source: © FRI. Data from IMF, International Financial Statistics (2000).

List of abbreviations:

1.	AMEX	-	American Stock Exchange.
2.	CalPERS	-	California Public Employees' Retirement System.
3.	COSO	-	Committee of Sponsoring Organisations'.
4.	DTI	-	Department of Trade and Industry.
5.	FILP	-	Fiscal Investment and Loan Program.
6.	IBFAN -		International Baby Food Action Network.
7.	ICC	-	International Chamber of Commerce.
8.	IMF	-	International Monetary Fund.
9.	INBC	-	International Nestlé Boycott Committee.
10.	INFACT	-	Infant Formula Action Coalition.
11.	NEDs	-	Non-executive Directors.
12.	NGO	-	Non-government Organization.
13.	OECD	-	Organization for Economic Co-operation and Development.
14.	SEC	-	Securities Exchange Commission.
15.	UNCTAD	-	U.N. Conference on Trade And Development.
16.	UNICEF	-	United Nations Children's Fund.
17.	WBCSD	-	World Business Council for Sustainable Development.
18.	WHO	-	World Health Organization.
19.	WTO	-	World Trade Organization.

Bibliography:

- **Books**

1. Allen F, 'Stock Markets and Resource Allocation', in Mayer C. and Vives X. (eds.), *Capital Markets and Financial Intermediation* (1993, Cambridge University Press, Cambridge).

2. American Management Association, *Survey of Down-sizing and Assistance to Displaced Workers* (1995, AMA Report, New York).

3. Aoki M, *Information, Incentives and Bargaining in the Japanese Economy* (1988, Cambridge University Press, Cambridge).

4. Aoki M and Patrick H, *The Japanese Main Bank System: Its Relevance for Developing and Transforming Economies* (1994, Oxford University Press, Oxford).

5. Aoki M., Patrick H. and Sheard P, 'The Japanese Main Bank System: An Introductory Overview', in Aoki M. and Patrick H. (eds.), *The Japanese Main Bank System* (1994, Oxford University Press, Oxford).

6. Ashby W. R, *Design for a Brain* (1952, Wiley, New York).

7. Beauchamp Tom L. and Elliott Martha W., "Hooker Chemical and Love Canal" in Beauchamp Tom L., *Case Studies in Business, Society and Ethics* (1983, Eaglewood Cliffs, NJ: Prentice Hall) 107-115.

8. Barnet Richard and Mueller Ronald, *Global reach: the power of multinational corporations.* (1974, Simon and Schuster, New York).

9. Bisson T, *Zaibatsu Dissolution in Japan* (1954, University of California Press, Berkeley, CA).

10. Bryan L. and Farell D, *Market Unbound: Unleashing Global Capitalism* (1996, John Wiley and Sons, London).

11. Burrough B. and Helyar J, *Barbarians at the Gate* (1990, Harper & Row, New York).

12. Cadbury, Sir A. (Chairman), *Report of the Committee of the Financial Aspects of Corporate Governance* (1992, Financial Reporting Council, London Stock Exchange, London).

13. Carroll A., *Business and Society: Ethics and Stakeholder Management* (1993, South-Western Publishing, Cincinnati) 62.

14. Carroll Archie B. and Buchholtz Ann K. (University of Georgia), *Business & Society – Ethics and stakeholder management* (Fourth ed. 2000, South-Western College Publishing) Ch.3, p.63-90.

15. Donaldson John, *Business ethics: a European casebook.* (1992, Academic Press, London) 63-65.

16. Freeman R. E, *Strategic Management: A Stakeholder Approach.* (1984, Pitman, Boston, MA).

17. Hadley E, *Antitrust in Japan* (1970, Princeton University Press, Princeton, NJ).

18. Higgs D, *Review of the role and effectiveness of non-executive directors* (2002, DTI Publications).

19. Jensen Michael C, 'The modern industrial revolution, exit, and the failure of internal control systems', in Chew D. H. (ed.), *Studies in international corporate finance and governance systems – A comparison of the U.S., Japan and Europe* (1997, New York/Oxford) p.18-37.

20. Keasey K., Thompson S. and Wright M, *Corporate governance: economic management and financial issues* (1997, Oxford University Press, Oxford).

21. Kester Carl W, *Japanese takeovers – The global contest for corporate control* (1991, Mass, Boston).

22. Lollins J. C. and Porras I. J, *Build to Last: Successful Habits of Visionary Companies* (1995, Century, Random House, London).

23. Matsushita K, *The Matsushita Perspective – A Business Philosophy Handbook* (PHP Institute Inc., Tokyo & New York) Part I&II.

24. Mayo E, *The Human Problems of Industrial Civilisation* (1933, Macmillan New York)

25. Minford Patrick, *Markets not stakes* (First ed. 1998, Orion Business Books) Ch.1, p.1-18.

26. Oakland J. S, *Total Quality Management: Text with Cases* (1996, Butterworth-Heinemann, Oxford).

27. Ohmae K, *The borderless world: power and strategy in the interlinked economy* (1990, HarperPerennial, New York).

28. Okazaki T, 'The Japanese Firm under the Wartime Planned Economy', in Aoki M. and Dore R. (eds.), *The Japanese Firm: Sources of Competitive Strength,* (1994, Oxford University Press, Oxford).

29. Schulz M, *Monetary Policy and the Flow of Funds in Japan* (1998, Marburg, Germany)

30. Servant-Schreiber Jean Jacques, *Le defi americain.* (1968, Hamish Hamilton, London).

31. Sethi Prakash S., *Multinational Corporations and the Impact of Public Advocacy on Corporate Strategy: Nestlé and the Infant Formula Case* (1994, Boston: Kluwar Academic).

32. Sheard P, 'Interlocking Shareholdings and Corporate Governance in Japan', in Aoki M. and Dore R. (eds.), *The Japanese Firm: The Sources of Competitive Strength* (1994, Oxford University Press, Oxford).

33. Smith D, *Business and the Environment* (1993, Paul Chapman).

34. Taylor F, *Principles of Scientific Management* (1911, Harper and Row, New York).

35. Thurow L, *The future of capitalism: how today's forces shape tomorrow's world* (1996, William Morrow, New York).

36. Useem M [Cambridge, MA], *Executive Defense* (1993, Harvard University Press).

37. Vernon Raymond, *Sovereignty at bay.* (1971, Basic Books, New York).

38. Veseth M, *Selling globalization: the myth of the global economy* (1998, Lynne Riener Publishers, London).

39. Wheeler David and Sillanpää Maria, *The stakeholder corporation* [The Body Shop – Blueprint for maximizing stakeholder value] (First ed. 1997, Pitman) Part-I, Ch.1, p.5.

40. The Body Shop International: 1992, 1993 and 1994, *The Green Book 1, 2, 3*; and the Body Shop International: 1996 and 1998, *The Values Report* 1995 and 1997.

- **Journals, Research Papers, Reports, Discussion Papers, Conferences and News Articles.**

1. Beaver William, "Is the Stakeholder Model Dead?" (March-April 1999) *Business Horizons* 8-12.

2. Berglof E. and Perotti E, "The Governance Structure of the Japanese Financial *Keiretsu*" (1994) 36(4) *Journal of Financial Economics*.

3. Birkin F. and Woodward D. [Staffordshire Business School], "Management accounting for sustainable development – Part 3: Stakeholder analysis" (September 1997) 75(8) *Management Accounting* 58-60.

4. Boudros Art, "The New Capitalism and Organizational Rationality: The Adoption of Downsizing Programs, 1979-1994" (September 1997) *Social Forces* 229-250.

5. Brenner S. N. and Cochran P., "The stakeholder theory of the firm: Implications for business and society theory and research" (1991) *Paper presented at the annual meeting of the International Association for Business and Society, Sundance, UT.*

6. Brenner S. N. and Molander E.A., "Is the ethics of business changing?" (1977) 58(1) *Harvard Business Review* 54-65.

7. Carlin W. and Mayer C, "Finance, Investment and Growth" (1999) *CEPR Discussion Paper No.*2223.

8. Collier J, "Editorial: Globalization and ethical global business" (April 2000) 9(2) *Business Ethics: A European Review* 71-75.

9. Corbett Jenny, 'Changing corporate governance in Japan', in Balling M., Hennessy E. and O'Brien R. (eds.), "Corporate governance, financial markets and global convergence" (1998) 33 *Financial and Monitary Policy Studies* [Dordrecht/Boston/London] 112-136.

10. Crystal Graef, "Almost Any Way You Figure It, Executive Pay Remains Irrational" (December 3rd, 1995) *Los Angeles Times* p.D2.

11. Diamond D, "Financial Intermediation and Delegated Monitoring" (1984) 51(3) *Review of Economic Studies*.

12. Donaldson Thomas and Preston Lee, "The stakeholder theory of the corporation: Concepts, Evidence, Implications" (1995) 20(1) *Academy of Management Review* 65-91.

13. Flath D, “Shareholding in the *Keiretsu*: Japan’s Corporate Groups” (1993) 51(3) *Review of Economic Studies*.

14. Forker J, “Corporate Governance and Disclose Quality” (1992) 22(86) *Accounting and Business Research* 111-124.

15. Freedman Alix M., “Nestlé to Restrict Low-Cost Supplies of Baby Food to Developing Nations” and “American Home Infant-Formula Giveaway to End” (February 4th, 1991) *Wall Street Journal* B1.

16. Friedman M., “The social responsibility of business is to increase its profits” (September 13th 1970) *New York Times Magazine* 32, 33, 122 & 126.

17. Gibson Kevin, “The Moral Basis of Stakeholder Theory” (August 2000) 26(3) *Journal of Business Ethics* 245-257

18. Goodpaster K. and Holloran T., “In Defence of a Paradox” (October 1994) 4(4) *Business Ethics Quarterly* 428

19. Halal W. E., “The new management: Business and social institutions in the information age” (1990) 2(2) *Business in the Contemporary World* 41-54.

20. Hamao Y. and Hoshi T, “Bank Underwriting of Corporate Bonds: Evidence from Japan After 1994” [Unpublished manuscript] (2000) *UCSD*.

21. Horiuchi A, “Liberalization and Stability in the Japanese Financial System – An Overview” (1995) *University of Tokyo, Department of Economics, Discussion Paper* 95-F.

22. Horiuchi A, “Financial Fragility in Japan: A Governance Issue” (1998) *University of Tokyo, Discussion Paper* F-5.

23. Hoshi T, “Benefits and Costs of the Japanese System of Corporate Governance” (1997) 26 *Global Economic Review*.

24. Hoshi T. and Kashyap A, “The Japanese Banking Crisis: Where did it come from and How will it End?” (1999) *Brookings Papers on Economic Activity*.

25. Hoshi T., Kashyap A. and Scharfstein D, “The Role of Banks in Reducing the Cost of Financial Distress in Japan” (1990) 27(1) *Journal of Financial Economics*.

26. Jensen Michael C, “Corporate control and the politics of finance” (1991) 4(2) *Journal of Applied Corporate Finance* 24.

27. Kalpan S. and Minton B, “Appointments of Outsiders to Japanese Boards: Determinants and Implications for Managers” (1994) 36(4) *Journal of Financial Economics*.

28. Karpoff J. and Rice E, “Organizational Form, Share Transferability, and Firm Performance: Evidence from the AN CSA Corporations” (1989) 24(1) *Journal of Financial Economics*.

29. Kester, Carl W, "Governance, Globalization and Forces of Change" (October 2000) *Shanghai Stock Exchange Lecture,* Shanghai.

30. Khanna T, "Business Groups and Social Welfare in Emerging Markets: Existing Evidence and Unanswered Questions" (2000) *European Economic Review.*

31. Kim E. H., Sakata K., White J., Wakasugi T., Stern J., Stephens V., Mochizuki T. and Newburg M, "EVA and shareholder value in Japan" (Winter 1997) 9(4) *Journal of Applied Corporate Finance (USA)* 94-114.

32. Kotter J. and Haskett J., "Corporate culture and performance" (1992) *New York: Free Press* 59.

33. Kujala J, "Analysing moral issues in stakeholder relations" (July 2001) 10(3) *Business Ethics: A European Review* 233-243.

34. Masters C. (Business Finance Faculty, Southampton Institute of Higher Education), "Audit Committees, the Cadbury Code and Audit fees" (March 21-22, 1997) *Seventh National Auditing Conference,* Canfield, U.K.

35. Maugh II Thomas H., "Toxic Waste Disposal a Growing Problem" (May 25th, 1979) 204 *Science* 64.

36. Meade N. L, Brown R. M. and Johnson D. J, "An Anti-takeover Amendment for Stakeholders" (November 1997) *Journal of Business Ethics* 1651-1659.

37. Miyajima H, "The Transformation of Zaibatsu to Postwar Corporate Groups – From Hierarchically Integrated Groups to Horizontally Integrated Groups" (1994) 8(3) *Journal of the Japanese and International Economies*.

38. Montalvo J. and Yafeh Y, "A Micro-econometric Analysis of Technology Transfer: The Case of Licensing Agreements of Japanese Firms" (1994) 12(2) *International Journal of Industrial Organization*.

39. Morck R. and Nakamura M, "Banks and Corporate Control in Japan" (1999) 54(1) *Journal of Finance*.

40. Morck R. and Nakamura M, "Japanese Corporate Governance and Macroeconomic Problems" [Unpublished manuscript] (1999) *University of British Columbia*.

41. Murray M. and Frank S. E, "Bank of New York Withdraws its Bid for Mellon" (May 21st 1998) *Wall Street Journal* p.A3.

42. Norris Floyd, "You're Fired (But Your Stock is Way Up)" *New York Times* (September 3rd, 1995) Sect. 4, p.3.

43. Petersen V.C, 'Habits of the heart: agreements for an ineffable social grammar' (2000) ISBEE World Congress Sao Paulo; *also see*: McPhail Ken, "The ethical challenges of globalisation: Critical reflections on the ISBEE 2nd World Congress in Sao Paulo, Brazil" (January 2001) 10(1) *Business Ethics: A European Review* 78-82.

44. Post James E., "Assessing the Nestlé Boycott: Corporate Accountability and Human Rights" (Winter 1985) *California Management Review* 115-117

45. Reich R. B, "The New Meaning of Corporate Social Responsibility" (Winter 1998) *California Management Review* 8-17.

46. Savage Grant T., Timothy W. Nix, Whitehead Carlton J. and Blair John D., "Strategies for Assessing and Managing Organizational Stakeholders" (May 1991) Vol. V, No.2 *Academy of Management Executive* 64

47. Schneider Marguerite [Email: mschneid@adm.njit.edu], "A Stakeholder Model of Organizational Leadership" (March-April 2002) 13(2) *Organization Science* 209-220.

48. Schulz M, "The Return of 'Structural' Monetary Policy? The Case of the Bank of Japan" (2001) *Monetary Macro & Finance Research Group Conference Paper* Queens University, Belfast.

49. Schulz M, "Shareholder vs. Stakeholder Values – Finance and Economic Change." (2001) *Japanese German Center Berlin Conference Volume* [Shareholder vs. Stakeholder value – The Case of Japan] Berlin.

50. Shleifer A. and Vishny R, "Large Shareholders and Corporate Control" (1986) 94(3) *Journal of Political Economy*.

51. Sillanpää M, "The Body Shop Values Report – Towards Integrated Stakeholder auditing" (October 1998) 17 *Journal of Business Ethics* 1445.

52. Sutherland P, "Global independence, the corporation and the changing world" (1999) 10(3) *Business Strategy Review* 47-55.

53. Suzuki K, "Inter-corporate Shareholding in Japan: The Significance and Impact of Sales of Stakes" [Unpublished manuscript] (1998) *London Business School*.

54. Vinten G. (Associate Dean and Professor of Management, Southampton Business School), "Corporate governance: an international state of the art" (1998) 13(7) *Managerial Auditing Journal* 422-424.

55. Wang J. and Dewhirst H. D., "Board of Directors and stakeholder orientation" (February 1992) 11 *Journal of Business Ethics* 115-123.

56. Weinstein D. and Yafeh Y, "Japan's Corporate Groups: Collusive or Competitive? An Empirical Investigation of *Keiretsu* Behaviour" (1995) 43(4) *Journal of Industrial Economics*.

57. Weinstein D. and Yafeh Y, "On the Costs of a Bank-centered Financial System: Evidence from the Changing Main Bank Relations in Japan" (1998) 53(2) *Journal of Finance*.

58. Wheeler D, "Memorandum by the Body Sop International" (1992) [A Community Eco-audit Scheme. 12th Report of the Select Committee on the European Communities. *House of Lords Paper* 42 (HMSO, London) 58-59].

59. Wheeler D. and Sillanpää M, "Including the Stakeholders – The Business Case" (April 1998) 31(2) *Long Range Planning* 201-210.

60. Yafeh Y. and Yosha O, "Large Shareholders and Banks: Who Monitors and How" (1999) [Unpublished manuscript] – The Hebrew University, Jerusalem.

61. *Health, Safety and Environmental Report* (1997, Royal Dutch / Shell Group of Companies, The Hague).

62. *Report to Society* (1998, Shell UK Ltd., London) 2.

63. *Shell and the Environment*, (1995, Group Public Affairs, Shell International Petroleum Co., London)

64. *Shell UK Environmental Report* (1995, Shell UK Ltd., London)

65. Williams Corinne (Learning Consultant, Leadership Development. Shell International Limited), "There and Back Again: An Organisational Adventure" [Demonstrating Overcoming Adversity] (February 28th, 2004) CSR Conference – *Business is Changing* – Julian Hodge Lecture Theatre – Cardiff Business School.

66. "1997 Corporate Governance Targets" *CalPERS News* {http://www.calpers.ca.gov} (February 1997).

67. "Impact of Big Mergers Questioned" *Pittsburgh Tribune-Review* (April 30th 1998) p.B3.

68. "Potential Economic Competitiveness Ranking" (2001) *Japan Centre for Economic Research (JCER),* Tokyo.

69. "Nestlé's Costly Accord" *Newsweek* (February 6th, 1984) 52.

70. "The stakeholder theory of the corporation: Concepts, Evidence, Implications" *The Economist* (1993: 52)

71. "The Toronto Conference: Reflections on stakeholder theory" [1994 Second Toronto Conference on Stakeholder Theory] (April, 1994) 33(1) *Business and Society* 82-131.

- **Online Journals, Research Papers, Reports and News Articles.**

1. "Brent Spar dossier", Shell in the U.K. – Web-link: http://www.shell.com/home/Framework?siteId=uk-en&FC1=&FC2=%2FLeftHandNav%3FLeftNavState%3D1&FC3=%2Fuk-en%2Fhtml%2Fiwgen%2Fabout_shell%2Fbrentspardossier%2Fdir_brent_spar.html&FC4=%2Fuk-en%2Fhtml%2Fiwgen%2Fproductsandservices%2Fprod_serv_impulse.html&FC5=

2. "Clash Over Canadian Refusal to Patent GE Animals Heads to Court" (May 20th, 2002) *The International Foundation for the Conservation of Natural Resources (Biotech Website)* – Web-link: http://biotech.ifcnr.com/article.cfm?NewsID=276

3. 'East Asian Keiretsu' – Web-link: http://members.efn.org/~dredmond/keiretsu.html

4. "Exxon Valdez oil spill: the aftermath" – Web-link: http://nj.essortment.com/exxonvaldezoil_regp.htm

5. "Mitsubishi Motors – Problems and Problems" – Web-link: http://www.mitsubishisucks.com/mitsubishi-motors.html

6. "Oil related environmental issues", Shell Nigeria – Web-link: http://www.shell.com/home/Framework?siteId=nigeria&FC2=/nigeria/html/iwgen/our_environment/oil/zzz_lhn.html&FC3=/nigeria/html/iwgen/our_environment/oil/dir_indexoilrel_1505_1543.html

7. "Revised Corporate Governance Principles" (October 26th, 2001) *Japan Corporate Governance Committee – Japan Corporate Governance Forum* – Web-link: http://www.ecgi.org/codes/country_documents/japan/revised_corporate_governance_principles.pdf

8. "U.N. Panel Urges Japan To Keep Up With West On Women's Rights" (July 9th, 2003) *United Nations Foundation [UN Wire]* – Web-link: http://www.unwire.org/UNWire/20030709/449_6375.asp

9. "USCIB Position Paper on codes of conduct" – Web-link: http://www.uscib.org/index.asp?documentID=1358

10. Akin Gump Strauss Hauer & Feld LLP (Attorneys of Law) "Corporate Governance Alert: AMEX approves proposed changes to corporate governance rules" (October 25th, 2002) – Web-link: http://www.martindale.com/xp/Martindale/Legal_Articles/article_abstract.xml?artid=477EB7EE1F&searchaop=728&industry=728&grptype=&STYPE=AB&LNAME=&FNAME=&FN=&STS=&CRY=&CP=1&RR=&ascope=&keyword=&orgid=&hp=1&searchid=200403021118055828107&lastxmonths=&lastxdays=&PRV=LL2&nomodify=&attid=&lid=&grpid=

11. Butler Declan, "Patent on umbilical-cord cells is rejected in Europe" (June 17th, 1999) *nature [World Conference on Science – UNESCO/ICSU]* – Web-link: http://www.nature.com/wcs/b48.html

12. Hirotsugu S. and Hitoshi A, "The Japanese Corporate Governance System and Firm Performance: towards sustainable growth" (January 2003) *Research Center for Policy and Economy* Mitsubishi Research Institute, Inc. – Web-link: http://www.esri.go.jp/jp/prj-rc/macro/macro14/05mril_t.pdf

13. Khor Martin (Director), "A Worldwide fight against biopiracy and patents on life" *Third World Network (TWN)* – Web-link: http://www.twnside.org.sg/title/pat-ch.htm

14. Mayo Charles, "Higgs files" (August 2003) – Web-link: http://www.elexica.com *Also see:* http://www.frc.org.uk

15. Miller Pamela A. (Artic Connections 3/99), "EXXON VALDEZ OIL SPILL: Ten Years Later" [Technical Background Paper] *Alaska Wilderness League* – Web-link: http://articcircle.uconn.edu/SEEJ/Alaska/miller2.htm#_edn10

16. Ostrom Douglas, "Sanwa Bank to merge with Tokai, Asahi Bank" (March 24th, 2000) 12 *Japan Economic Institute (JEI) Report* – Web-link: http://www.jei.org/Archive/JEIR00/0012w1.html

17. Rovillos R. D, Ramo S. B. and Curpuz C. (Jr.), "When the 'Isles of Gold' turns into Isles of Dissent: A case study on the Philippine Mining Act of 1995" (April 15th, 2003, Oxford, England) *Indigenous Peoples, Extractive Industries and the World Bank* – Web-link: http://forestpeoples.gn.apc.org/Briefings/Private%20sector/eir_internat_wshop_philippine_case_eng_apr03.htm

18. Stern R. M. and Terrell K. (University of Michigan), "Labor Standards and the World Trade Organizations" *Research Seminar in International Economics [Discussion Paper No. – 499]* – Web-link: http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r499.pdf

19. Szirmai A, "The dynamics of socio-economic development – An Introduction" (January 2004, Forthcoming: Cambridge University Press) [Draft of Chapter 13: The International Economic and Political Order Since 1945] – Web-link: http://www.tm.tue.nl/ecis/Seminars/EddySzirmai180204.pdf

20. Tamara Kaplan (The Pennsylvania State University), "The Tylenol crisis: How Effective Public Relations Saved Johnson & Johnson" – Web-link: http://www.personal.psu.edu/users/w/x/wxk116/tylenol/crisis.html

21. Bureau of Democracy, Human Rights and Labor, 'Country Reports on Human Rights Practices – 2000' [Afghanistan] (February 23rd, 2001, U.S. Department of State) – Web-link: http://www.state.gov/g/drl/rls/hrrpt/2000/sa/721.htm

22. Centre for Ethical Business Cultures, "Telling the Minnesota Story – The principles attract interest around the world" [E-mail: mail@cebcglobal.org] – Web-link: http://www.cebcglobal.org/Publications/TELMNSTY.htm

23. Fair Trade Commission, "Merger between Sumitomo Bank Ltd. and Sakura Bank Ltd." (December 25th, 2000) – Web-link: http://www2.jftc.go.jp/e-page/press/2000/20001225bank.pdf

24. Green Cross International, 'Globalization and sustainable development: Is Ethics the Missing Link?' (February 21-23, 2002, Earth Dialogues Forum) – Web-link: http://www.earthdialogues.org/documents/synthesis.html

25. PricewaterhouseCoopers, "Crisis Management: be prepared" (26/04/2002) – Web-link: http://www.excelsior.pwcglobal.com/knowledge/article.asp?artID=992

- **Cases**

1. *CTS Corp. v. Dynamics Corp. of America* [1987] U.S. Supr. 481, 69, 87.

2. *Unitrin, Inc. v. American General Corp.* [1995] Del. 651 A. 2d 1361.

3. *Unocal Corp. v. Mesa Petroleum Co.* [1985] Del. Supr. 493 A. 2d 946.