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Organizing and Coordinating a Keiretsu Group in the Japanese Economy: Business Network Based on Soft Power

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Abstract. Maybe the most grounded contention for the Japanese commerce framework was the surprising capacity and readiness to test and attempt modern things, to see to other frameworks and learn. This was accomplished with eagerness on all fronts within the improvement of Japanese specialized, organizational, administrative and fabricating aptitudes. Japanese industry was checked by fast section into modern areas by firms that delighted in the proceeded bolster of associated companies. Showcase competition was adjusted by budgetary, commercial and generation participation, with the arrangement and operation of keiretsu bunches getting to be an imperative column of the organization of advertise relations in Japan from the 1950s to the show day.

Keywords: keiretsu groups; business network; strategy; Value Chain; power

JEL Classification: M16

1. Introduction

Outsourcing models are common in Japan in numerous businesses, counting automobiles, buyer gadgets, and accuracy apparatus. In vehicle fabricating, for case, approximately 80 percent of a Japanese automobile's costs come from outside providers, as contradicted to as it were 50-60 percent within the Joined together States, West Germany, and France.

The Japanese dispersion framework works for the most part through outside systems. In household markets, wholesalers are organized in particular systems given by conventions, where items may pass through three or four middle of the road stages some time recently coming to the conclusion clients. In universal markets, more than half of the exchange in crude materials and products is conducted through fair a modest bunch of firms - Japan's nine common exchanging companies.

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In making capital ventures, expansive Japanese firms have depended much more than their US partners on financing from outside sources instead of inner cash streams. In later a long time, capital has progressively come from bond and value issues financed through monetary educate. In expansion, companies have long served as a vital source of capital for littler businesses by amplifying exchange credit.

2. Alliances and Business-Networks in the Japanese Economy

The term *network* has obtained a different meaning within the region of organizational hypothesis. Both the more formal and allegorical employments of the organize viewpoint have received expanding consideration within the examination of the mechanical organization of East Asian economies. Comparative approaches have looked at how organize structures contrast between nations and combined components of thorough organize information collection with casual speculations of arrange organization.

The *network* approach emphasizes the coordinate consider of how financial and other exchanges distribute assets in a social framework. The specific composition of linkages between money related, commercial and mechanical firms is seen as deciding noteworthy highlights of the generally organization of an economy and its results. Educate such as markets, businesses, and trade bunches ended up characterized as characteristic designs of concrete trades between diverse on-screen characters inside a bigger framework of intercorporate relations in which they take an interest.

In Japan there's no single, generally acknowledged framework for classifying these relationships. Be that as it may, ready to separate between four wide categories of organizations together that are ordinary in Japan: (1) intermarket keiretsu (level bunches), (2) vertical keiretsu, (3) little commerce bunches, and (4) key organizations together, counting joint wanders and venture consortia.

Intermarket bunches of expansive firms built around a major commercial bank are differently called: keiretsu, kigyo shudan, or kigyo gurupu (endeavor bunch).

Vertical keiretsu bunches are close-knit affiliations, various leveled in esteem chain position, centered on a single huge parent firm with a center esteem chain position containing a few littler lackey companies in related businesses. Most firms within the intermarket keiretsu keep up their claim vertical keiretsu, coming about in a crossing point of these two shapes.

Vertical keiretsu bunches can be separated into three primary categories. The primary category is spoken to by the *sangyo keiretsu*, or generation keiretsu, which are expound pecking orders of subcontractors at the essential, auxiliary, and tertiary levels that supply, through a arrangement of stages, the parent firms. The moment category is *ryutsu keiretsu* or conveyance keiretsu. These are direct merchant frameworks that work beneath the title of a large-scale producer or some of the time a distributer. They have much in common with the vertical showcasing frameworks that a few huge American manufacturers have presented within the organization of interfirm conveyance channels (Stern & El-Ansary, 2007, p. 98). The third category, *shihon keiretsu*, or capital keiretsu, are groupings based not on the stream of materials and merchandise, but on the stream of capital, and are some of the time alluded to in Japanese academic works by the German term *Konzern*. The foremost conspicuous modern illustrations are the Tokyu and Seibu railroad bunches, which have expanded their businesses from railroad lines to genuine domain, inns, shops and conveyance, as well as businesses within the tourism industry.

Trading within a keiretsu gather is checked by a tall degree of social trade: on-screen characters are implanted in a common field administered by basically connected asset streams and a common set of rules and customs that constitute the firm as a social framework. The relationship between individuals of the organization as an entirety takes priority over any exchange. The primary ring/circle (the center that guarantees the technique and coordination of the bunch, given by the 2-4 top pioneers companies, along side almost 20 other core companies) delimits the central zone of the bunch. At the firm level, maybe the foremost basic relationship is that between the company and its providers. The linkages that exist among Japanese firms and subcontractors in their vertical keiretsu are a include of the organization of industry in Japan (Clark, 2009, pp. 141-156). These subcontractors perform numerous of the capacities regularly performed by US firms through their possess divisions. Inside vertical keiretsu, the trade between parent and obsequious firms is inserted in a thick organize of connections, as different shapes of data, specialized and money related help, and administrative skill are given on a complementary premise. The parent firm, and by expansion its satellites, are in turn implanted in a bigger set of keiretsu-defined connections between markets. This second-order environment/circle comprises weaker connections between handfuls of firms in different businesses. Inside trade is less unavoidable than at the vertical keiretsu level, but gather character still gives auxiliary and typical meaning to these trades.

Key groupings speak to a third-order environment/circle/ring. They include more extraordinary and persevering trades than those in indifferent markets, but for the most part without the history, typical coherence, or thickness of trade systems found in vertical or intermarket keiretsu. At last, at the outside level one finds generic trades between performing artists who are fundamentally or typically moderately unconnected—for case, a firm's periodic buys of office supplies from a expansive number of distinctive retailers. These are genuine showcase exchanges with no extraordinary ties or persevering commitments.

The main issue that keiretsu in Japan face is how to work well together without clear rules and goals.

Another feature of keiretsu is a network of personal connections that help pass information between companies and sometimes act as a way to keep companies in line. Employee transfers are when workers switch jobs within the same company or between different companies that work together. This happens a lot with banks and their customers, as well as with big manufacturers and the companies they hire to do some of their work. Group projects are also important because they gather people from different levels of several companies.

Also, companies in intermarket groups and vertical groups connect through different executive boards where managers from different levels of the involved companies meet and discuss various matters. The Sumitomo Group has several different boards. These include the board of group presidents and a meeting for the presidents called OB-kai. They also have regular meetings for executives, vice presidents, and division managers to discuss company planning, public relations, and other group activities. For the Sumitomo Group, they made two different boards. One board is for the high-ranking executives, and the other is for the department managers.

The most significant meetings are called the Presidents' Council. These meetings gather the CEOs of the main companies in the group, usually around 20 to 25 companies. In Japanese, they are called *shacho-kai*. This combines the word for company president, *shacho*, with the suffix -*kai*, meaning meeting, assembly, or association. Shacho-kai is a relaxed council made up of a small group of people who hold important positions in companies. The *shacho-kai*, which is a group of executives, is often thought of as something that started after the war. However, it actually began before the war and has been a common and long-standing practice in Japan for a long time. *Shacho-kai* is a type of association that is part of a larger group called *Kyoryoku-Kai*, or cooperative councils. The *Kyoryoku-kai* format is now used in vertical alliances, which means it joins together the main company (like Toyota, Hitachi, etc.) and its subcontractors that work directly with customers. The shacho-kai in modern keiretsu can be traced back to the councils created by their zaibatsu counterparts. In 1938, the Mitsubishi Company created a group called Mitsubishi Kyoryoku-kai. This group allowed executives from different companies within the Mitsubishi organization to meet and discuss important matters. In 1944, Sumitomo created the Sumitomo Senji Kyoryoku-kaigi, which was a group where they worked together during wartime (Hiroshi, 1990, p. 93).

The Presidents' Council meets every month, except for Dai-Ichi Kangyo Financial Group, which meets once every three months. Meetings usually have someone called a secretary, whose job is to write down what happens. However, the information isn't shared with the public or with other people in the organization. Generally, details about what is said in the meetings and how they go are kept secret. The shacho-kai seems to function more like a bossy group that decides the rules and actions for each company, instead of a place where people talk about things they all care about.

Group presidents say that usually, they don't talk about anything important and the meeting is just a chance to share thoughts with other CEOs and socialize. Externally, the shacho-kai is a way for the business community to know that there is a relationship. This means that being connected with Mitsubishi, Sumitomo, and other well-known names gives the member company a special status. In the 1950s to the 1970s, Mitsubishi was thought to be the best company to be associated with. People believed it was the most powerful, modern, and united group. Recently, the Sumitomo Group has become the top-ranked prestigious company, which has led to discussions in the Japanese business media about a "Sumitomo Boom. " Even though Mitsubishi is bigger, Sumitomo has grown quickly and has more experts in advanced technology, like NEC in computers and telecommunications, and Sumitomo Electric in fiber optics and semiconductors.

3. Capital, Power and Influence in Coordinating a Keiretsu

The most important aspect in determining the power within the group is the position of the two, three, four, etc. top leader companies in the entire established network (business network, partnership, etc.); in relation to the position/influence of these core companies, dozens of types of relationships are then established with the other core companies, then tier 2, tier 3, etc. Traditionally, two firms have had significant links with all keiretsu companies, namely the group bank and the group trading company. They were all connected through their control of money and trade. The two same companies, particularly the bank, were very involved in restructuring the keiretsu after the war. They are often seen as the most important members of the group, although this is not the case with TMC, SoftBank, Canon, and others. Internal group dynamics refer to the way a group of people inside a company try to find a balance between wanting control over the group and wanting independence from the rest of the company. The way people's personalities and job positions interact with each other over time has caused some differences in how different boards of companies work. Mitsubishi's Kinyo-kai is a very organized and central group among the councils. The chairmanship of the main Mitsubishi firms, which make up the group's inner circle called the Sewanin-kai, has historically switched among them. Since the 1990s until now, there has been a trend of reducing the unity of all keiretsu groups, particularly the horizontal groups like Sumitomo and Mitsubishi.

If Mitsubishi was the company with the most control, then Sumitomo's Hakusui-kai was likely the company with the least control. There wasn't a specific job or role that involved being in charge. Instead, the leadership of each meeting changed regularly (until the 1990s) among the presidents of the twenty companies. This board had the strictest rules because only company presidents were allowed to attend. If shacho-kai was used to show who belonged and express what the group wanted, then resource flows (like products, money, employees, information, etc.) were how these wants were shown in the daily life of each company's interactions with other connected businesses. From the 2000s until now, there have been big changes in how power and influence are used within a keiretsu group. Because of this, it's hard to determine which CEO or company currently has the most power in the entire group.

More recently, as a result of capital market liberalization and the slowdown in overall growth of the Japanese economy, there has been a commensurate shift in sources of external capital among large Japanese companies; simply put, the companies started to attract capital first, the additional issue of shares, through the issue of bonds, etc. and to avoid taking out long-term bank loans (Gordon, 1990, pp. 115-171). Although the existence of close banking relationships is easy to see in the numbers, there are likely to be strong banking ties between keiretsu firms and financial institutions in other groups. The internalization of a financial market at the level of a group shows us the proportion of loans/credits committed by group firms in current relations with group banks and/or other firms of the same group. Since the 1990s, there has been a trend of actual externalization of the financial markets of keiretsu groups in the sense that many firms and/or the majority of one group have started to turn to commercial banks from other groups or commercial banks not affiliated to any group (eg Industrial Bank of Japan).

Following the financial crisis of 1997, the accumulation of capital and the exercise of tools of influence in the strategic direction of keiretsu groups have changed significantly or even majorly, increased in complexity. Simply put, most keiretsu groups have become more willing to cooperate with financial institutions outside the group, including other foreign companies, to attract capital (the alliance of Renault, Mitsubishi and Nissan is an argument to support the previous claim). However, it should be emphasized that in the case of some independent companies such as TMC, MMC, Canon, Sony, etc. (as well as others that had considerable autonomy in the 90s, but formally belonged to a horizontal and/or vertical group) a process of consolidating positions in certain industries and/or on certain markets. In other words, in the case of companies that were not directly dependent on certain commercial banks (examples TMC, Canon, Sony, SoftBank, etc.) at the time of the 90s, it should be easier to identify which of the CEOs *de facto* exercises the strongest influence in the coordination of the entire business network of the respective organization. Therefore, any attempt that would be formulated as a working hypothesis to establish who exactly built and is building the strategy of a keiretsu group should be distributed and analyzed differently over the span of the seven decades that sum up the history of these groups, respectively:

- there are certain historically known situations and confirmed by existing works/studies in the international management literature regarding the evolution and success of some companies and/or keiretsu groups up to the time of the 90s;

- on the other hand, there are other specific, relatively much different situations, reflected especially in the Annual Reports of the respective companies regarding the success/failure of some Japanese companies from the 90s until now (especially around 1997 and in the context of the crisis 2008-2010 some well-known companies merged with others, had to resort to different alliances/partnerships or even went bankrupt, such as the Sharp company).

4. Who Builds the Strategy at the Level of a Keiretsu Group?

During the 1980s, although the traditional keiretsu system was a model for business schools everywhere, it was assumed that keiretsu had “died” when Japanese manufacturers initiated Western-style cost-cutting tactics. However, some Japanese automakers have revived and reinvented the keiretsu, and Toyota provides an eloquent example. Toyota now has relationships with suppliers (mostly from other countries) that are more open and global than they have ever been, deepening the trust, collaboration and educational support that were the hallmarks of keiretsu in their earlier form.

In the traditional keiretsu world, an original equipment manufacturer (OEM) previously relied on decades-long exclusive relationships with key suppliers, in which it often held significant shares. This situation was also specific for manufacturers such as MMC, MHI, Nissan, etc. until the Asian crisis of 1997. The reorganization of Japanese commercial banks, accompanied by a tendency to disintegration of horizontal keiretsu groups forced the main Japanese manufacturers (from the automotive, electronics, telecommunications industry etc) to individually identify their own solution to maintain/consolidate their position at the international level.

In the year 2000, Toyota started a new way of buying things called CCC21 to help them compete against other companies. The plan was to choose suppliers who offer prices that can compete on a global scale, with the aim of lowering expenses by 30% in three years. In the last 20 years, the group of companies that supply Toyota (called kyohokai) has mostly stayed the same. From 1991 to 2011, only a small number of companies, less than 20 out of about 200, stopped being part of the group. Between the years 1991 and 2010, the average amount of money earned from Toyota-related businesses, compared to the total amount earned, by 44 suppliers of the company stayed at about 80%. This remained consistent even when Toyota increased the number of suppliers they worked with. Even though CCC21 was adopted, Toyota still focused on establishing good relationships and trust with its suppliers.

Toyota has made business partnerships overseas too. In 1992, he made the Toyota Supplier Support Center so that American suppliers could understand the Toyota production system. In 1997, he started a group called the Toyota Europe Manufacturers Association. This group has about 70 companies that come together to study and learn. They also have a team that watches over the suppliers of parts for Toyota Europe. This team has experts in buying, quality, design, production, and other jobs. In other countries, the company communicates more clearly and provides more specific instructions than it does in Japan. Toyota has supplier relationships that are more similar to the old keiretsu system compared to other Japanese automakers. However, Nissan and Honda also have some characteristics of the traditional practice. In 2004, Nissan changed its stance on supplier relations and decided to go back to its old way of doing things, known as keiretsu.

The new keiretsus (both those coming from former horizontal keiretsus like Mitsubishi, Nissan, etc. and those that were part of vertical keiretsus like Toyota) are far from perfect. Suppliers, who are part of the current structure of a group, striving to achieve a high quality of the product/service delivered, sometimes find it difficult to deliver the simpler and cheaper parts needed in emerging markets. However, keiretsu relationships, with all the changes/adaptations that have occurred over the past three decades, allow OEMs and suppliers to work together to identify potential causes of problems (maintaining synergy, joint learning, etc.). It is cost-effective for OEMs to provide educational support to their own suppliers, as ultimately the support provided then leads to slightly lower costs of the product/service that such a supplier/sub-supplier can provide and ensures slightly better quality at the end of the entire value chain. The concepts of Porter, Demming or Juran directly supported the whole process of establishing keiretsu groups in post-war Japan (Porter, 1985). Such concepts developed by

Western theorists were later taken up and developed by Japanese authors such as Nonaka, Takeuchi, Ohmae, etc. (Ohmae, 1982) Continuous learning, technical innovation, experimentation and careful study of the strategies applied by various successful Western companies at the top management level and other categories of managers in keiretsu groups largely explain the survival and adaptation of these business networks in the context of various crises that have marked the global economy throughout the post-war period. These groups have been quite successful in successively reinventing their coordination strategies and competitive positions at the international level.

Despite the shortcomings/difficulties that Japanese companies have faced over the past two decades, the new keiretsu provides a useful template for companies seeking to enrich their supplier relationships for long-term benefits. The strategic thinking, organization and operation of keiretsu groups began to significantly influence the strategies and organization of production in American, European and other regions of the world NMCs. In some industries in Europe, suppliers have been building strong connections with manufacturers for many years and work together to make the value chains better. (eg Scania, IKEA, etc.).

5. Conclusions

Despite the various challenges that both keiretsu groups and the Japanese economy as a whole have faced in recent decades, various competitors in Asia and/or elsewhere in the world have attempted to adopt the keiretsu model and economic policies of Japan as a manufacturing country / exporters etc. South Korea, with its keiretsu-like chaebol, now competes with the Japanese chip industry in the same way that Japan once did with US industries. The other Asian competitors developed their own variations on Japanese business practices. Perhaps the most promising candidate that seems to take up the lessons learned by Japan is given by Chinese companies and government policies applied by China from the 1980s to the present.

Among other conclusions that can be drawn, we mention the following aspects:

a) The organizational and competitive model of keiretsu groups had and maintains certain specific advantages for all major Japanese companies in dealing with various international competitors. This even though the Asian crisis of 1997 quite severely limited the rise of keiretsu groups in various foreign markets.

b) We can draw the conclusion that Toyota Motor Corporation was and remains the most successful integrationist group (conglomerate type, business network, etc.), compared to other keiretsu groups. This is because since the 1960s it has taken the position of reforming, innovative and revolutionary leader regarding the organization of production and customer relations and has managed to maintain this position until the present time (compared to any other keiretsu group).

c) The Asian crisis of 1997 was a watershed moment for the evolution and success or failure of all Japanese keiretsu groups. This *de facto* situation in the history of keiretsu groups leads us to the conclusion that the membership of n firms in such a group does not provide any immunity against bankruptcy and/or downward periods in the business cycle itself. Well-known companies such as Nissan and Mitsubishi had to resort to an alliance that seems to be successful until now (but Renault recorded a loss of around 9 billion euros in 2020, Mitsubishi is still planning losses, etc.). In the same context, other companies such as Hitachi, Toshiba, Canon, Sony, etc. seem to have succeeded in consolidating their autonomy and remaining representative as keiretsu or sub-keiretsu groups at the international level.

Therefore, the idea that the model of keiretsu groups, as a specific form of business network remains one of theoretical and pragmatic interest, can be stated with sufficient clarity.

In the 1980s, as Japanese manufacturers achieved outstanding results in factories in some Western countries, some observers argued that certain Western companies might imitate the managerial practices of Japanese MNCs. Therefore, a somewhat more balanced view of the success of Japanese keiretsu groups and the *miracle* of the Japanese economy in the post-war period seems to be emerging. This more balanced view of Japan's position in global GDP and Japanese MNCs in various foreign markets takes into account the fact that at least part of the Japanese miracle of the 1980s and 1990s was based on certain constraints and/or conditioning on which large companies have instituted since the 1950s in their commercial relations with a multitude of smaller firms. It is difficult to translate certain practices and business relationships between MNC-SMEs in Japan to the social and economic climate of the Western world.

There have been signs in recent years that vertical keiretsu groups will return to the economic scene in a new form. Mainly, the formation of new cross-holdings between some manufacturers and their suppliers is envisaged. Also, supporting new cross-shareholdings based on closer coordination with partner firms by companies is required for survival in an intensely competitive global economy.

Thus, even if over-applied keiretsu can lead to closed markets, the lessons learned regarding the organization and strategies used by keiretsu over seven decades can be excellent sources of inspiration for other MNCs (from Europe, USA, Canada, Asia, etc.) for improving commercial relations with own suppliers, making their participation more flexible in the *Value Chain* structure, reducing costs, continuously improving quality, etc.

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