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De facto Corporate Governance Mechanisms and Structural Changes in Financing and Ownership: A Comparison of Toyota Group and Hyundai Motor Group*

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ABSTRACT

This study explores the financing structures, ownership structures, and governance mechanisms of five automakers within two business groups (i.e., the Toyota Group in Japan and the Hyundai Motor Group in South Korea). By analyzing the five automakers' financing structures and ownership structures, this study calls attention to the weakening influence of outsiders who are otherwise supposed to function as professional and systematic supervisors in monitoring corporate management. We assign great importance to each of their governing organizations—which practically take the place of the monitoring function—and attempt to analyze their governing organizations, with a focus on composition, size, and the substantive role of organizational members, *inter alia*. Furthermore, our findings show that the original role expected of outsiders as members of the governing organization was diminished by the influence of conventional factors (i.e., social or corporate conventions).

Keywords: Corporate ownership and financing structures, corporate governance mechanisms, Hyundai Motor Group, Toyota Group, automobile industry
JEL Classification codes: G32, G34, L62

1 Introduction

As firms' financing structures increasingly rely less on funds received from financial institutions that serve requisite supervisory functions, the influence of external advisors capable of monitoring the corporate management behavior of firms could diminish. Additionally, the role of impartial advisors is being negatively affected, as corporate ownership structures are relying increasingly on high levels of insider influence. In this changing environment,

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who should monitor corporate management behavior? The law cannot compel firms to acquire funding from external subjects that fulfill a professional and systematic monitoring function, nor can it mandate that corporate management behavior be monitored by external and impartial consultants. Thus, with the above trends in mind, we should expect a decline in the monitoring function of corporate management behavior that was previously carried out by impartial advisors.

In such a business environment, the role of firms' own governing organizations in monitoring corporate management behavior would become increasingly important. By establishing an internal system of checks and balances, firms would monitor their own management behaviors in order to prevent arbitrary or inefficient decision-making by the management group. In recent years, there has been great progress in the study of such firm-level governance structures and their mechanisms. Lee and Lee (2003) address the changes in the ownership and governance structures among Korean companies after the 1997 Asian economic crisis and discuss the various governance structures of Korean companies in general. Inoue (2003) explores three specific issues that relate to Toyota's internal governance—namely, the reform of Toyota Motor Corporation's governance structure; its management ideology, which supports the structural reforms of governance; and the direction of Toyota Motor Corporation's governance reformation. Furthermore, Shimizu (2011) explores corporate governance styles among large family-owned businesses, by undertaking a comparative analysis of Ford Motor Company, Volkswagen, and Toyota Motor Corporation—all of which are considered automobile-specialized companies within the same industrial field. However, such studies have been broad in nature, and focus mostly on individual firms' superficial governance structures. To understand clearly a firm's practical internal governance processes, we need to focus not only on its governance structure, but also on the substantive roles performed by the individual members of governing organizations.

As an example of the approach we take, we will examine how firms are moving toward encouraging outsiders to actively participate in their internal governing organizations (e.g., board of directors [hereafter, BOD], supervisory board [hereafter, SB], etc.), in order to improve the transparency and efficacy of their monitoring functions. The Hyundai Motor Group (hereafter, the HM Group) in Korea and the Toyota Group in Japan seem to have actively embraced this approach. However, we will examine whether these governance mechanisms are working as intended, and if the participation of outsiders is having substantive effects on overall performance. By doing so, this study examines crucial aspects of internal governance performance that have been ignored by previous researchers.

This study wholeheartedly accepts an evolutionary perspective on firms and an argument regarding the diversity of corporate systems. Based on this framework, we will focus on how firms' financing structures, ownership struc-

tures, and governance mechanisms have evolved. To do so, we perform a case analysis of two automakers of the HM Group in Korea—Hyundai Motor Company (HMC) and Kia Motors Corporation (KMC)—and three automakers of the Toyota Group in Japan—namely, Toyota Motor Corporation (TMC), Daihatsu Motor Corporation, Ltd. (DMC), and Hino Motors, Ltd. (HML).

This paper consists of two parts. The first analyzes the financing structures of the five automakers; the evolution of their financing structures, based on changes in their financing methods; and the diversity of their ownership structures. It also analyzes the companies' structural features, by undertaking a comparison of the evolutionary paths of their ownership structures. The second half of this paper analyzes the governance mechanisms of the HM Group and those of the Toyota Group, conventional factors that have had a great impact on the establishment of each governance mechanism, and the practical effects of internal governance mechanisms.

2 Structural changes in financing and ownership

2.1 Financing structures of firms

From a macroeconomic perspective, the various financing methods that firms opt for in order to raise funds may reveal some generalized country-specific features. Miyamoto (2004) argues that the financing system of Japanese and German firms can be categorized as an "indirect financing-dominant system," and that that of U.S. and U.K. firms can be categorized as a "direct financing-dominant system." His analysis of the debt composition of non-financial enterprises in Japan, Germany, the United States, and the United Kingdom shows that loan-based financing has a relatively "heavyweight" presence in Japan and Germany, whereas equity-based financing is given comparatively greater preference among U.S. and U.K. firms.

2.1.1 Financing dependence of firms

An argument regarding the evolution of firms' financing methods for raising funds makes use of a calculated index that shows how firms actually obtain the funds needed to manage their business activities each year. This index considers the "financing dependence" of firms and quantifies the firms' level of dependence on direct financing, indirect financing, and self-financing. Financing dependence is an objective measure that shows the evolution of firms' financing methods.

To quantify financing dependence, the source of financing in company i (SOF_i), company i's level of dependence on indirect financing (IF_i), that on direct financing (DF_i), and that on self-financing (SF_i) need to be calculated as follows.

$$SOF_i = STD_i + LTD_i + FCD_i + CSC_i + PCS_i + CB_i + CP_i + TES_i$$
$$IF_i = (STD_i + LTD_i + FCD_i) / SOF_i$$
$$DF_i = (CSC_i + PCS_i + CB_i + CP_i) / SOF_i$$
$$SF_i = TES_i / SOF_i$$

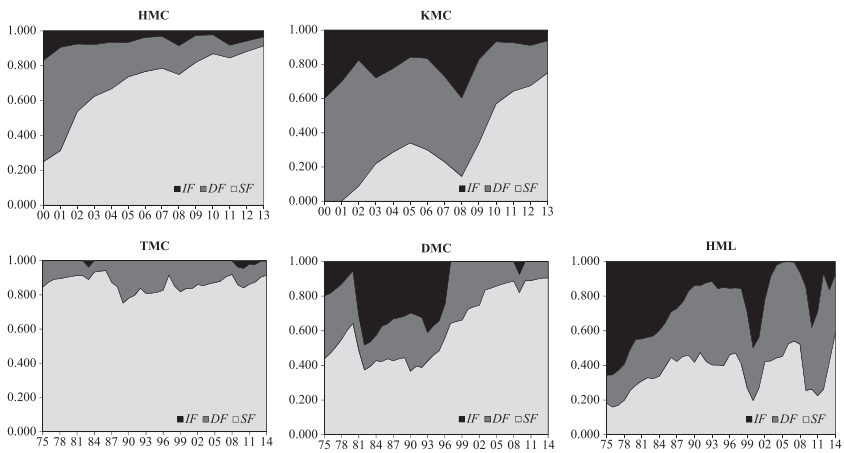
where STD_i represents the short-term debt of company *i*, LTD_i is the long-term debt of company *i*, FCD_i is the foreign currency debt of company *i*, CSC_i is the capital stock (common) of company *i*, PCS_i is the preferred capital stock of company *i*, CB_i is the corporate bond of company *i*, CP_i is the commercial paper of company *i*, and TES_i is the total earned surplus of company *i*.

The values of IF_i, DF_i, and SF_i that are closer to 1.000 indicate a stronger dependence on the respective financing method. These values are calculated using data from the Repository of Korea's Corporate Filings Data Analysis, Retrieval and Transfer (DART) and the Electronic Disclosure for Investors' NETwork (EDINET). From this calculation, the financing structures and their evolution can be identified for HMC and KMC in Korea and for TMC, DMC, and HML in Japan (see Figure 1).

2.1.2 Hyundai Motor Group versus Toyota Group

Our analysis of the financing structures of the HM Group and the Toyota Group revealed that the automakers belonging to both of these groups rely most heavily on self-financing to obtain the funds needed to manage their busi-

Figure 1. Financing dependence: the HM Group vs. the Toyota Group.



Note: All data are based on the companies' fiscal year.
Source: Calculated by the author.

ness activities. Further, the common trend is that the level of dependence on external financing is maintained with a gradual downward tendency, whereas that on self-financing is maintained with an overall upward tendency. As a result, the gap between the level of dependence on self-financing and that on external financing has increased.

However, in the case of the HM Group, the level of dependence on self-financing increased rapidly in a short period of time, whereas in the case of the Toyota Group, it increased slightly over a long period of time. This can be considered the biggest difference between the two groups. Moreover, the financing structure of the automakers belonging to the HM Group tended to evolve to the self-financing-dominant financing structure as the level of dependence on self-financing sharply exceeded that on external financing after a certain point in time. In contrast, the financing structure of the automakers belonging to the Toyota Group showed different types of financing structures: the self-financing-dominant financing structure was established in TMC quite some time ago, DMC's financing structure has been evolving into a self-financing-dominant financing structure, and HML still shows a hybrid-type financing structure.

One of the most important aspects revealed through our analysis of the financing dependence of the automakers is that the level of dependence on self-financing has either gradually or rapidly increased as the total earned surplus generally increased. Because of this trend, the scale of fundraising from external sources for the money needed to manage business activities has been reduced. As a result, the level of dependence on indirect financing to raise the funds that each automaker has needed has been relatively reduced. What this indicates is that the monitoring and supervising function of financial institutions—which has been the result of financial intermediaries offering funds like banks do—is on the decline. Therefore, there is a need for institutions that can help fulfill this function.

2.2 Corporate ownership structures

In simple terms, the corporate ownership structure of a specific firm indicates who owns it. Many different types of corporate ownership structures can be found in any given independent firm; they can be classified into several distinct categories, according to various standards. The existence of diverse types of corporate ownership structures in each independent firm is the outcome of strategic management choices made by each firm, which are in turn affected by numerous factors.

A corporation—which is a legal entity that possesses corporate property (i.e., who owns the firm as an institution)—is vested a "legal personality" as the subject of the contract; further, such a corporation is governed by shareholders, who are the legal owners of the firm (Miyamoto, 2004). Thus, it can be said that the corporate ownership structure varies with the characteristics of the shareholders who own the firm. In particular, the ownership structure of a

corporation with a certain amount of capital subdivided by shares owned by many random shareholders can vary greatly, depending on who owns shares in the corporation and how many shares are owned.

By virtue of owning shares, shareholders of a specific corporation are imbued with influence over the corporation's crucial decisions; this influence manifests when they exercise their voting rights at a general shareholder meeting. The level of an individual shareholder's influence on the corporation is determined by the number of shares owned by him or her, in accordance with the principle of shareholder equality.[1] It can be said that the level of voting rights ultimately determines who exerts influence on the corporation, and how great that influence is. Therefore, a distinguishing corporate ownership structure—which only the corporation has—can be explored by analyzing the influence of various shareholders on the corporation.

2.2.1 Hyundai Motor Group: corporate ownership by a very small minority of people and affiliates

The HM Group's production system, which can be considered a *keiretsu*-based integrated production system, facilitates not only the production of basic automobile frames and core auto components, but also the assembly of automobiles within the group (Kim, 2014a). In other words, the HM Group has a production system in which most processes related to automobile production and the supply of core auto components are undertaken by the group's automobile-related affiliates (Kim, 2015). Because of this production system, it has been possible for various automobile-related affiliates belonging to the HM Group to work within the group as a single organism (Kim, 2014b).

However, for each of the legally independent affiliates to function as a single organism, each of them should first be effectively controlled as planned by the HM Group. Therefore, if the major issues that relate to the HM Group's business management are settled without significant interference from outsiders, and if the automobile-related affiliates (i.e., HMC and KMC) within the HM Group are more strongly influenced by insiders than by outsiders, the potential for the smooth functioning of the *keiretsu*-based integrated production system will be greater; that is because each affiliate will increasingly be able to work as a single organism, despite being a legally independent firm.

Based on such an argument, assuming that HMC and KMC should be controlled as per the HM Group's plan and its intention to smoothly execute the *keiretsu*-based integrated production system, we propose that the level of influence on each of them by HM Group insiders would be high. Moreover, we expect the insider-oriented corporate ownership structure to be evident in both HMC and KMC.

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[1] See Article 369 (1) of the Korean *Commercial Act* and Article 109 (1) of the Japanese *Companies Act*.

To verify this proposition and the accompanying assumption, it is essential that we quantify the level of leverage or influence exerted by the people concerned in the HM Group (i.e., the insiders) on HMC and KMC, based on the number of shares. It might be inferred that the greater the number of shares held by the insiders, the stronger their influence on affiliate *i* would be. Thus, the level of influence on affiliate *i* by the insiders belonging to business group *H* ($INSIDE_i$) can be calculated as follows.

$$INSIDE_i = \frac{D_i + \sum_{j=1}^{N} R_{ij} + \sum_{k=1}^{N} E_{ik} + \sum_{l=1}^{N} A_{il}}{S_i - T_i} \quad j, k, l = 1, \ldots, N$$

where D_i represents the number of shares of affiliate *i* held by the dominant shareholders of business group *H*, R_{ij} is the number of shares of affiliate *i* held by the dominant shareholders' relative *j* of business group *H*, E_{ik} is the number of shares of affiliate *i* held by executive *k* of business group *H*, A_{il} is the number of shares of affiliate *i* held by affiliate *l* belonging to business group *H*, T_i is the number of treasury shares[2] held by affiliate *i*, and S_i is the total number of affiliate *i*'s shares outstanding.

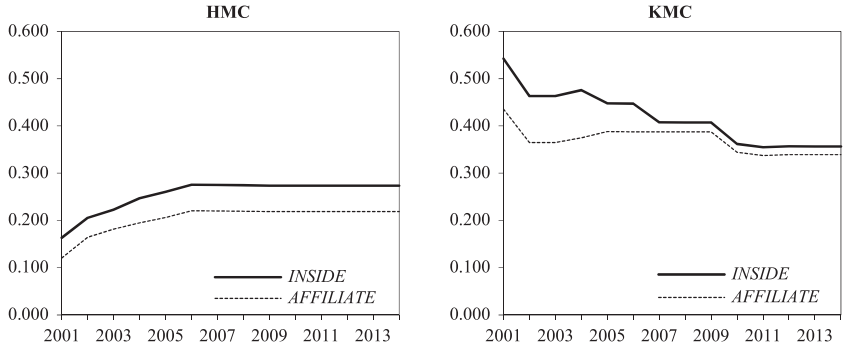
To identify the level of leverage or influence that the other affiliates exert on each affiliate, the level of influence on affiliate *i* by the others that belong to business group *H* ($AFFILIATE_i$) can be calculated separately as follows.

$$AFFILIATE_i = \frac{\sum_{l=1}^{N} A_{il}}{S_i - T_i} \quad l = 1, \ldots, N$$

$INSIDE_i$ and $AFFILIATE_i$ are calculated using data given from the Repository of Korea's Corporate Filings DART, the Online Provision of Enterprises Information System (OPNI), and Find Information & Data on Shareholdings (FINDKRX). Using these formulae, the $INSIDE_i$ and $AFFILIATE_i$ values of HMC (and those of KMC) and each of their variations during the 2001–14 period can be calculated as shown in Figure 2. $INSIDE_i$ and $AFFILIATE_i$ scores that are closer to 1.000 indicate stronger levels of leverage among insiders and affiliates, respectively.

[2] "Treasury shares are shares of stock which have been issued and fully paid for, but subsequently reacquired by the issuing corporation by purchases, redemption, donation or through some other lawful means.… Treasury shares carry no voting rights or rights as to dividends or distributions.… Treasury shares are issued shares, but being in the treasury that do not have the status of outstanding shares" (Torres, 2008, p. 152).

Figure 2. Level of influence on automakers by insiders in the HM Group.



Note: All data are based on the companies' fiscal year.
Source: Calculated by the author.

The results show that the level of leverage or influence exerted by individuals within the HM Group has been maintained at a high level in both HMC and KMC. In other words, each of HMC and KMC in Korea has a corporate ownership structure where a high level of influence is exerted on them by a very small minority of the people concerned and the affiliates (see Figure 2). Compared to that of the other automobile-related affiliates belonging to the HM Group, the level of influence is, of course, relatively low. Compared to the automakers belonging to the Toyota Group, the high level of influence exerted on each automaker by a very small minority of specific subjects can be considered a unique characteristic of HMC and KMC. In addition, throughout the evolution process of their ownership structure, the influence of outsiders (who played the role of a professional and systematic supervisor in monitoring corporate management) has been greatly reduced.

2.2.2 Toyota Group: collapse of the financial institution-oriented corporate ownership structure

According to Miyajima and Nitta (2011), the ownership structure of listed corporations in Japan features stable, long-term stockholdings by financial institutions or business corporations. In other words, financial institutions, business corporations, and affiliated companies that are connected by business relations attempt to stabilize their corporate ownership structure through reciprocal capital holdings (i.e., by owning a certain portion of one another's stocks). Additionally, under the Japanese main banking system, the main bank owns a certain proportion of the borrowing company's stocks, and cross-shareholdings are common, depending on the circumstances. Therefore, it is conceivable that the automakers belonging to the Toyota Group maintain a corporate ownership structure on which financial institutions maintain a high level of influence.

Further, it can be expected that TMC, DMC, and HML each shows a corporate ownership structure featuring a gradual increase in the influence of foreign capital. Capital market liberalization was propelled in Japan once the nation joined the Organization for Economic Cooperation and Development and fulfilled the obligations of Article VIII of the International Monetary Fund (hereafter, IMF) in 1964.

In order to validate these two arguments, first and most importantly, it is necessary to quantify how much leverage is exerted by financial institutions and foreign capital on each automaker within the Toyota Group; this is calculated based on the number of shares held by financial institutions and foreigners. The level of influence on company *i* exerted by financial institutions ($FINANCIAL_i$) and the level of influence on company *i* exerted by foreign capital ($FOREIGNER_i$) can be calculated as follows.

$$FINANCIAL_i = \frac{\sum_{p=1}^{N} FI_{ip}}{S_i - \sum_{r=1}^{N} MU_{ir} - \sum_{s=1}^{N} OL_{is} - T_i} \quad p, r, s = 1, \ldots, N$$

$$FOREIGNER_i = \frac{\sum_{q=1}^{N} FO_{iq}}{S_i - \sum_{r=1}^{N} MU_{ir} - \sum_{s=1}^{N} OL_{is} - T_i} \quad q, r, s = 1, \ldots, N$$

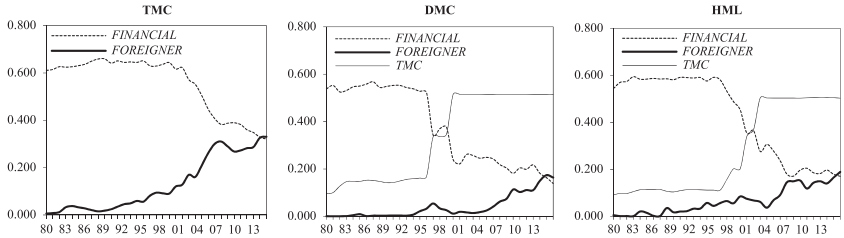
where FI_{ip} represents the number of shares of company *i* held by financial institution *p*, FO_{iq} is the number of shares of company *i* held by foreign capital *q*, MU_{ir} is the number of shares of company *i* held in mutual ownership by company *i*'s shareholder *r*, OL_{is} is the number of odd lots[3] of company *i* held by company *i*'s shareholder *s*, T_i is the number of treasury shares held by company *i*, and S_i represents the total number of shares outstanding of company *i*.

$FINANCIAL_i$ and $FOREIGNER_i$ are calculated using data from the EDINET. Using these formulae, the $FINANCIAL_i$ and $FOREIGNER_i$ of the three automakers belonging to the Toyota Group in Japan and each of their variations during the 1980–2014 period can be calculated as shown in Figure 3. A $FINANCIAL_i$ and $FOREIGNER_i$ score that is closer to 1.000 indicates a stronger level of leverage for financial institutions and foreign capital, respectively.

The results show that while junctures vary, for the three automakers, the level of influence on each of them by financial institutions rapidly decreased from a specific point in time, whereas the level of influence on each of them by

[3] Odd lots are shares that are "bundled" in quantities smaller than that of a normal unit of trading. Under the unit share system in Japan, odd lots do not have voting rights at general shareholder meetings. The number of shares that constitutes one unit of trading changes according to the corporation or the time of year; generally, however, one unit of trading comprises 100 shares.

Figure 3. Level of influence on automakers by financial institutions and foreign capital.



Note: All data are based on the companies' fiscal year.
Source: Calculated by the author.

foreign capital gradually increased. In other words, the financial institution-oriented corporate ownership structure started to dissolve as the level of influence exerted by financial institutions on each automaker decreased; as a result, their ownership structures have been evolving, with a continuous increase in the level of influence exerted by foreign capital on each automaker. Especially, it can be said that the corporate ownership structure of TMC has begun to evolve into a hybrid-type corporate ownership structure, combined with financial institutions and foreign capital; at the very least, DMC and HML can be considered to have a TMC-oriented corporate ownership structure. In addition, while each automaker has been transitioning to different types of corporate ownership structure, throughout the evolution process, the influence of outsiders (who played the role of a professional and systematic supervisor in monitoring corporate management) has been greatly reduced.

3 Corporate governance mechanisms

As mentioned, while a number of definitions of "corporate governance" exist, the term "generally refers to the processes by which organisations are directed, controlled and held to account" (ANAO, 1999, p. 1). Williamson (1985) describes corporate governance as a mechanism that minimizes the agency costs and transaction costs incurred by the interested parties in a corporation. Berle and Means (1932) add that as a corporation grows and its scale increases, the stockholders who own the corporation and the management who owns the corporation become separated; due to this separation, conflicts of interest and agency problems arise. Therefore, corporate governance is important in modern corporations. Moreover, Miyamoto (2004) reports that how the owners of a corporation govern the management can lead to discipline problems as the ownership and management are separated.

However, in our exploration of the corporate governance of the HM Group and the Toyota Group, we found that both business groups have shown a

gradual decline in the monitoring and supervisory function of external subjects. Moreover, in the previous section, we showed that the evolution of the financing structure and corporate ownership structure of the automakers belonging to the two business groups has led to the weakening of the influence of external subjects—subjects who are supposed to be in charge of professional supervision and systematic monitoring. In other words, the monitoring and supervisory function of the external subjects in corporate management has been weakened in the case of all the automakers that belong to the HM Group and the Toyota Group, for various reasons (e.g., the automakers' decreasing reliance on external funds, the increasing internal influence of affiliates, and the decreasing influence of financial institutions). Therefore, there is a need for institutional strategies that can complement or replace the weakened monitoring and supervisory function for corporate management. Furthermore, different types of corporate governance mechanism have emerged among these automakers, due to institutional changes in Korea and Japan.

3.1 Hyundai Motor Group: "inside-biased single-board system"

3.1.1 Anglo–American model of corporate governance

The Anglo–American model of corporate governance is distinguished by a clear separation of supervision and execution; the members of a BOD are nominated through a general shareholder meeting, and the BOD is in charge of corporate governance; various officers (including the chief executive officer [hereafter, CEO]) are in charge of the execution of corporate business (Tamura, 2002). In U.S. corporations, the audit committee, nominating committee, compensation committee, management committee, and so on (each of which consists of a couple of directors) are generally organized under the BOD; the supervision and planning tasks for corporate management are delegated to the members of each committee, as appropriate (Kikuzawa, 2004).

The governance mechanisms of the two automakers belonging to the HM Group are based on the Anglo–American model of corporate governance. Each company has adopted a single-board system without an SB (i.e., an independent organization for monitoring the execution of corporate business and for supervising the CEO), and this differs from the governance mechanism of the automakers belonging to the Toyota Group. The motivation for establishing the governance mechanism of HMC and KMC based on the Anglo–American model of corporate governance stemmed from the IMF's policy recommendations for overall improvements to corporate governance, in support of the bailout program for Korea when that country faced the 1997 Asian financial crisis. With the IMF's policy recommendations as the stimulus, the Anglo–American model of corporate governance quickly spread to various sectors of many of Korea's corporations. The majority of corporations adopted the external director system to improve transparency in corporate management and safeguard

investor profit, and they began to improve their governance structure in stages.[4] On February 6, 1998, the Economic Emergency Measures Committee mandated the appointment of external directors in stock market-listed corporations as part of an action plan for economic regeneration. Subsequently, the external director system was officially adopted. Prior to this, the Hyundai Group and the Pohang Iron and Steel Company had unofficially adopted this system in 1996 and 1997, respectively (Yoon, 2011). Since 1998, the appointment of external directors has been institutionally compulsory in Korea; by law, a stock market-listed corporation with total assets worth more than KRW2 trillion must appoint more than three external directors, and one-half of the total number of directors should be external directors.[5]

3.1.2 Board of directors

The BOD of HMC and KMC (which is organized to ensure corporate integrity and corporate transparency) represents the interests of shareholders and interested parties, supervises corporate management—which is led by the CEO—and monitors and makes decisions regarding major issues that relate to business management.

The BODs of HMC and KMC currently comprise more external directors[6] than internal directors. As of 2013, the BODs of HMC and KMC had nine directors each. The BOD of HMC comprises four internal directors and five external directors, and that of KMC comprises three internal directors, five external directors, and one non-executive director. The internal directors (and one non-executive director) nominated by the BOD and the external directors nominated by the external director candidate nomination committee (or board nominating committee) are appointed at a general shareholder meeting. The composition of the BODs of HMC and KMC were evenly divided between external and internal directors in the early 2000s, when corporate governance was pioneered in the HM Group; until 2013, the number of internal directors in the BODs of HMC and KMC never exceeded that of external directors. Since the mid-2000s, external directors have comprised more than 50% of the BODs' total composition (see Figure 4).

HMC and KMC each set up an audit committee, an ethics committee, and an external director candidate nomination committee (or board nominating

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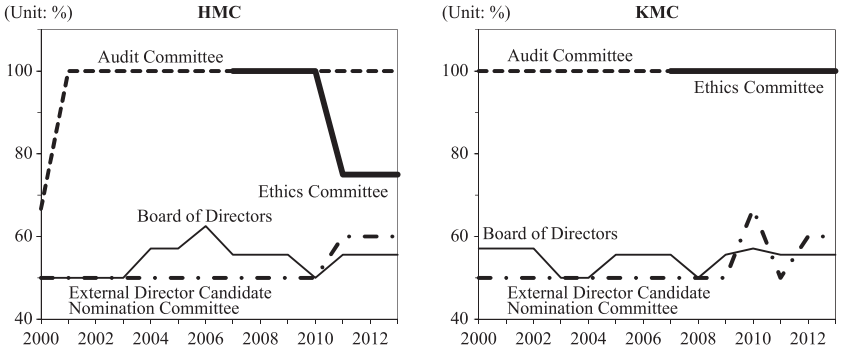
[4]The failure by the BODs of financial institutions and stock market-listed corporations to monitor and supervise major shareholders and management is considered the cause of a serious shortage of corporate management personnel; this had led to the introduction of the Anglo–American model of corporate governance (Yoon, 2011, p. 5).

[5]See Article 542–8 (1) of the Korean *Commercial Act*.

[6]In general, external directors make decisions regarding the execution of corporate business in the BOD, elect a representative director, and supervise the representative director's execution of corporate business.

Figure 4. Composition ratio of external directors on the BODs: HMC vs. KMC.



Note: All data are based on the companies' fiscal year.
Source: Calculated by the author, using data from the *Annual Reports* of each company, for the indicated years.

committee), under their respective BODs; they did so to strengthen the efficiency of decision-making and clarify the division of duties. As with the BODs themselves, more than one-half of the members in each of these committees are external directors. Each committee under the BOD is the most basic and systematic institution to coordinate the relationships among the various people concerning the company; simultaneously, these committees supervise and monitor corporate management (in a role once fulfilled by external specialists) and regulate various parts of the company.

3.1.3 Preference for FSGO-turned-external directors

The external director system adopted by the HM Group fosters efficiency when the independent appointment of an external director is guaranteed, when the appointed external directors take an active part in the BOD and the various committees under it, and when they perform their role as an external director in an objective manner. Following the introduction of the external director system in the HM Group, the group has consistently attempted to change the composition of its external directors so as to improve its corporate governance structure and enhance corporate transparency. While it would not be easy to identify precisely the HM Group's substantive rationale for attempting to make such a change, at the very least, we need to consider whether their attempt to implement such a change is appropriate, given the original function of the external director system.

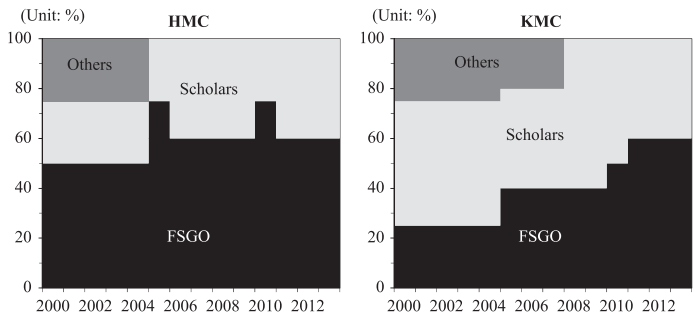
Since the introduction of the external director system, external directors have comprised more than one-half the BODs of both HMC and KMC (see Figure 4). Two notable features of the composition of external directors have been maintained in both companies. First, both HMC and KMC and have a high percentage of external directors who previously worked at very powerful

government organizations as senior government officials. Second, the composition of the external directors on the BOD, as a percentage, has tended to increase. The group of external directors classified as former senior government officials (hereafter, FSGOs) in Figure 5 includes people who worked as senior government officials at very powerful government organizations (e.g., the public prosecutor's office, the court of law, the national tax service, the Korea fair trade commission, the Blue House [*Cheongwadae*], etc.). The percentage of FSGO-turned-external directors increased from 50% in 2000 to 60% in 2013 in the case of HMC; in the case of KMC, that figure increased massively, from 25% in 2000 to 60% in 2013. Moreover, the diversity in the composition of external directors decreased in both companies. In the early stages of introducing the external director system, HMC and KMC selected external directors with diverse profiles (e.g., ex-government officials, current or former scholars, ex-businesspeople, ex-members of environmental organizations and foundations, etc.). However, as the percentage of FSGO-turned-external directors continued to increase, the BODs of HMC and KMC included only scholars-turned-external directors and FSGO-turned-external directors. Consequently, the dualistic composition of the external directors on the BODs of HMC and KMC has solidified (see Figure 5).

3.1.4 Role of external directors, and a Korean practice

While there could be various reasons as to why HMC and KMC appoint as their external directors people who previously worked as senior government officials in very powerful government organizations, one strategic reason for this preference (which is relevant to the company's political advantage) is the

Figure 5. Dualistic composition of the external directors on the BODs: HMC vs. KMC.



Note:
1. All data are based on the companies' fiscal year.
2. FSGO includes people who worked as senior government officials at very powerful government organizations (e.g., the public prosecutor's office, the court of law, the national tax service, the Korea Fair Trade Commission, the Blue House [*Cheongwadae*], etc.).
Source: Calculated by the author, using data from the *Annual Reports* of each company, for the indicated years.

tacit gain that comes from "respectfully treating a former senior government official"—a practice that has been handed down in Korean society over the years. This practice is called *Jeon-Gwan Ye-U*, and it has existed in Korean society for quite some time. *Jeon-Gwan Ye-U* refers to the aforementioned "respectful treatment" of people who used to work as senior government officials, who are accorded the privileges of their former post after their retirement. While *Jeon-Gwan Ye-U* has generally been practiced in legal circles,[7] it has also existed in the corporate sector. In line with this practice, individuals who once held high-ranking government posts at very powerful government organizations are employed in a related company, post-retirement; they mainly act as mediators between the government and the company, so that their respective companies can gain advantages in various aspects of government-related business.

While the practice of *Jeon-Gwan Ye-U* has gained tacit acceptance in Korean society, the reemployment of FSGOs has been partially restricted by certain legal instruments, in order to reduce the social evils of *Jeon-Gwan Ye-U* and prevent non-transparent "back-scratching" alliances between the government and businesses that could otherwise be promoted by FSGOs.[8] Nevertheless, the composition ratio of FSGO-turned-external directors has seen a gradual increase in the listed companies of business groups in Korea. According to Lee (2013), of the 250 listed companies within Korea's 51 business groups, a total of 808 external directors were listed as of January 2013; 39.5% of these external directors were ex-government officials, ex-judicial officers, and ex-politicians, and this percentage been generally and gradually increasing.[9]

Since the practice of *Jeon-Gwan Ye-U* continues to exist in Korean society, it is not surprising that the composition ratio of FSGO-turned-external directors remains at high levels in both HMC and KMC. However, the following issues need to be considered. Can the natural role of an external director be fulfilled by FSGO-turned-external directors? Can they efficiently serve the function of the external director system? External directors make decisions regarding the execution of corporate business in the BOD, and in various committees under the BOD; furthermore, they fulfill the function of supervising the executive officers' execution of corporate business. Therefore, the appointment of professionals from various fields—professionals who can objectively supervise the executive officers' execution of corporate business and make objective decisions regarding the execution of corporate business—as external directors can maximize the efficiency of the external director system.

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[7] In general, this refers to a practice in Korean legal circles, wherein retired judges or public prosecutors who start a private practice as lawyers receive favorable results from their incumbent former colleagues in the court.

[8] See Article 17(1) of the Korean *Public Service Ethics Act*.

[9] This figure was 34.2% in 2010, 33.5% in 2009, 33.7% in 2008, 33.9% in 2007, and 32.1% in 2006 (Lee, 2013).

Table 1 presents data related to the BODs and external directors of HMC and KMC. During the 2009–13 period, HMC held 45 board meetings, averaging nine meetings per year; the annual average attendance rate of its external directors was 97.3%. During the same period, KMC held 52 board meetings, averaging 10.4 meetings per year; the annual average attendance rate of its external directors was 96.2%. In both companies, the annual average attendance rate of the FSGO-turned-external directors was relatively high, compared to the overall attendance rate of the external directors. From the high attendance figures, we can infer that the FSGO-turned-external directors took an active part in their respective BODs. However, Table 1 reveals interesting facts about each external director type. In the case of HMC, an average of 30.8 agendas per year were up for consideration, and the percentage of positive votes ("YES") by FSGO-turned-external directors was 98.7%. In the case of KMC, 26.4 agendas per year were up for consideration, on average, and the percentage of positive votes by FSGO-turned-external directors was 99.3%. These figures are quite high; they indicate that nearly none of the FSGO-turned-external directors opposed the proposed agendas in their respective BODs. That is, these figures indicate that decisions regarding the execution of corporate business were possibly made in a perfunctory, "rubber stamp" manner by the FSGO-turned-external directors.

As a result, the following questions arise. Do HMC's and KMC's external directors play a proper role in monitoring their executive officers' execution of corporate business? Or do they act merely as "yes-men"?

There is clearly a preference among business groups in Korea to appoint as external directors people who previously worked as senior government officials at very powerful government organizations; it can be interpreted as an indication of their intention to fully use those people as a defensive measure against government power (e.g., government management and supervision of the company, investigations of the company, various restrictions on the company, and the like). This intention can be construed as a misuse of the external director system as a kind of "paravent" by which to protect themselves from various external influences. (Bear in mind that the system was originally introduced to prevent bad management that arose from the inflexible attitude and dictatorial nature of the major shareholders.) From the company's perspective, the preference for external directors who previously worked as senior government officials at very powerful government organizations indicates the company's unstated expectation that FSGO-turned-external directors—who are granted the privileges of their former post after their retirement—would take from their incumbent former colleagues the role of lobbyist to secure benefits for their current company. From the perspective of the appointed external directors, their appointment as external directors is equivalent to a tacit agreement to fulfill the company's unstated request.

Both HMC and KMC showed a preference for appointing external directors who had previously worked as senior government officials at very powerful government organizations. As of 2013, more than one-half of the external directors of both these firms once worked as senior government officials at very

Table 1. Percentage of positive votes ("YES") and attendance rate of external directors at the BODs: HMC vs. KMC.

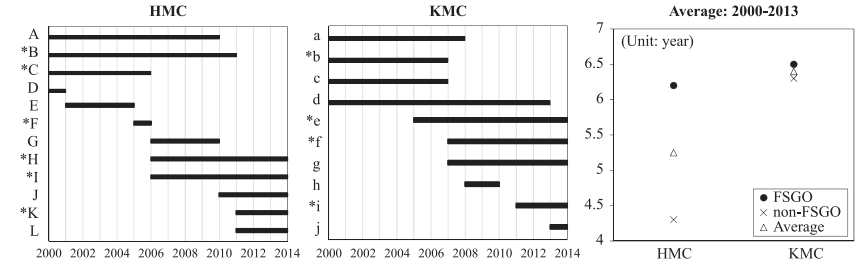
(Units: times, %)	2009	2010	2011	2012	2013	Average
HMC						
No. of board meetings held	9	12	10	8	6	9
Attendance rate (external directors)	91.1	100	97.7	97.5	100	97.3
Attendance rate (FSGOs)	88.9	100	100	100	100	97.8
No. of proposed agendas	30	36	34	32	22	30.8
Percentage of positive votes (external directors)	95.3	100	97.9	98.8	100	98.4
Percentage of positive votes (FSGOs)	93.3	100	100	100	100	98.7
KMC						
No. of board meetings held	10	12	12	12	6	10.4
Attendance rate (external directors)	90.0	98.1	94.6	98.3	100	96.2
Attendance rate (FSGOs)	100	100	100	100	100	100
No. of proposed agendas	30	24	32	29	17	26.4
Percentage of positive votes (external directors)	82.6	95.6	94.7	99.2	100	94.4
Percentage of positive votes (FSGOs)	96.7	100	100	100	100	99.3

Note:
1. All data are based on the companies' fiscal year.
2. Percentage of positive votes and attendance rate are calculated by the author.
3. The number of board meetings held includes both regular board meetings and special board meetings.

Source: The *Annual Reports* of each company, for the indicated years.

powerful government organizations (see Figure 5). Moreover, analysis of the average employment tenure among the external directors of HMC and KMC from 2000 to 2013 shows that the FSGO-turned-external directors had been employed longer (HMC: 6.2 years; KMC: 6.5 years) than had the non-FSGO-

Figure 6. Length of external directors' employment tenure: HMC vs. KMC.



Note:
1. All data are based on the companies' fiscal year.
2. Vertical axis (i.e., A, B, C…, K, L; a, b, c, …, i, j) stands for external directors in each company.
3. *indicates FSGO-turned-external directors.

Source: Calculated by the author, using data from the *Annual Reports* of each company, for the indicated years.

turned-external directors (HMC: 4.3 years; KMC: 6.3 years) (see Figure 6). This result lends weight to the argument that the appointment of external directors with prior experience as senior government officials at very powerful government organizations is a not-irrelevant strategic choice in securing political gains for a company. Indeed, there could be a gap between the original function of the external director system (or the external director's natural role) and its actual function in reality, in both HMC and KMC.

3.2 Toyota Group: "inside-biased dual-board system"

3.2.1 Japanese model of corporate governance

The Japanese model of corporate governance is characterized by the configuration of the SB as an independent organization that is separate from the BOD—unlike in the Anglo–American model of corporate governance, where the audit committee is organized under the BOD.

The governance mechanism of the three automakers belonging to the Toyota Group is based on the Japanese model of corporate governance; each company has adopted the dual-board system, which clearly separates the BOD (which is in charge of executing corporate business) and the SB (which is in charge of monitoring the execution of corporate business). Unlike in Korea, the adoption of a specific model of corporate governance is not strongly regulated in Japan. It is quite the contrary: companies in Japan are allowed to freely choose a model suitable to them—either the Anglo–American model of corporate governance or the Japanese model of corporate governance. In May 2002, the amended Japanese *Commercial Law* was passed by regular congress, and the amended

Japanese *Commercial Law* came into effect in April 2003. Subsequently, certain companies were able to maintain the existing SB system, or adopt the American-style "company with committees" system (Tsumori, 2002). Unlike Sony Corporation—a representative Japanese corporation that actively adopted the Anglo–American model of corporate governance following the amendment to the Japanese *Commercial Law*—the three automakers belonging to the Toyota Group retained the Japanese model of corporate governance by adhering to the corporate management style of the Toyota Group. According to this model, the major business management issues are determined, and their management monitored, by a BOD consisting of company insiders.

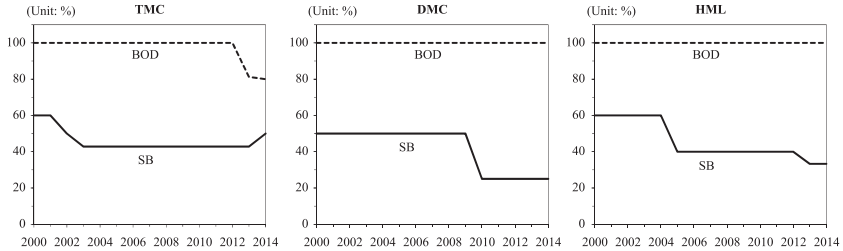
3.2.2 Insider-centered large-sized board of directors

In the case of DMC and HML, there is a reason as to why they do not appoint external directors to their BODs, and it is clearly stipulated in their annual securities reports. According to these reports, when a BOD consists of internal directors conversant with their business, decision-making vis-à-vis business operations is more effective; moreover, it easier to monitor the performance of the directors' duties in such a BOD. Furthermore, decisions pertaining to various agendas are made swiftly and efficiently in BODs that consist solely of internal directors. These BODs feature a high percentage of internal directors, and the reason for this can be inferred from the characteristics of the Toyota Group—a company that emphasizes talented people who can understand and honor its corporate philosophy.

The governance mechanism of the three automakers belonging to the Toyota Group is based on two axes—namely, the BOD and the SB. These axes mainly comprise insiders. The BODs and SBs of these automakers have been functioning separately, due to the characteristics of the dual-board system. Each of their BODs has been organized mainly by internal executive officers because of the conventional characteristics of the Toyota Group, which places high value on the functional effectiveness of a BOD consisting of insiders (see Figure 7). In other words, TMC, DMC, and HML each features a "large-sized BOD with restricted participation of outsiders." This feature is in striking contrast to the BODs of the two automakers in the HM Group, each of which has a "small-sized BOD with less restricted participation of outsiders." An examination of the size of the BOD in each company based on its number of BOD members reveals that from 2000 to 2014, the average size of the BOD of TMC was 30 members (including external directors); at DMC and HML, meanwhile, that number was 17 and 12, respectively.[10] The average size of the BOD in each company in the Toyota Group is relatively large, compared to that of HMC and KMC: between 2000 and 2013, both companies had BODs consisting of an average of 8.3 members, including external directors. Clearly, the size of the BOD of the Toyota Group's three auto-

[10]This was calculated by the author, using data for each company from *Annual Securities Reports* (2000–14).

Figure 7. Composition ratio: Internal directors on the BODs vs. internal members in the SBs.



Note: All data are based on the companies' fiscal year.
Source: Calculated by the author, using data from the *Annual Securities Reports* of each company, for the indicated years.

makers has gradually decreased since the early 2000s; nevertheless, these automakers still have larger BODs than do the two automakers of the HM Group.

It is difficult to make an absolute value judgment as to whether a large-sized BOD with restricted participation by outsiders is more efficient in its forms and functions. Approaching this issue from the perspective of the existence of various corporate systems—rather than from the perspective of an absolute value judgment—might be desirable. At the very least, we need to examine whether the BODs of the Toyota Group's three automakers show the aforementioned structural features.

Restricting the participation of outsiders in the BOD and stocking the BOD mainly with internal executive officers means that the supervisory function and executive function will be concentrated in one governing organization (i.e., the BOD). This means that the executive officers—who perform an executive function in a company—need to simultaneously carry out the supervisory function of monitoring their work as executive officers. Two of the most important functions of the BOD are to supervise the executive officers' execution of corporate business and to monitor the major issues of corporate management. However, in the case of TMC, DMC, and HML, the BODs mainly comprise their own internal executive officers, and so it is highly likely that the BOD will weaken the control of the executive officers. The executive officers in each company are, at the same time, also members of its BOD; therefore, it can be said that this is no different from a combination of the BOD as an organization and the management group as another organization. In general, when a BOD consists of an appropriate number of external directors—who are independent from the management group—and those external directors who monitor the management group, the BOD can actively require that the management group carry out a higher standard of company management. Furthermore, such arrangements are more likely to inhibit inappropriate behavior on the part of the management group

and prevent arbitrary management directives on the part of the management group, as the external directors' monitoring standards of (and viewpoints on) company management and performance would be strict and objective. However, when the BOD has a structural feature in which the supervisory function and the executive function are practically conjoined—without a clear separation between them, as in the case of the Toyota Group's three automakers—there could be a potential decline in its supervisory function, in which it would monitor the management group. Therefore, to ensure a higher standard of supervisory function from the BOD members in supervising the executive officers' execution of corporate business and monitoring the major issues of corporate management, there is a need to create a clear separation between the natural role of executive officers and the expected role of the BOD members.

Moreover, for the BOD to function ideally, it is very important to ensure that the size of the BOD helps secure democratic and rational decision-making, through the use of fair processes, consultation, and effective discussions of the proposed agendas. One cannot conclude that a large-sized BOD will always be ineffective, or that a small-sized BOD will always be completely effective. However, as the size of a BOD increases beyond what is necessary, it becomes more likely that the smooth exchange of effective communication and opinions among BOD members will be attenuated. In such a BOD environment, the capability of the BOD to efficiently monitor the executive officers is likely to decrease; further, in-depth and lively discussions on proposed agendas would be limited at the BOD level; this could give rise to delays in decision-making among the BOD members, which could in turn hinder corporate management efficiency. There is no clear consensus on the ideal BOD size; in recent times, the trend is toward downsizing BODs to 10 members. According to Spencer Stuart (2014), S&P 500 companies[11] in 2014 tended to organize their BODs to include 10.8 members, on average; 74% of these companies had between 9 and 12 members. The average size of the BODs in S&P 500 companies has been stable for more than 10 years, ranging between 10.7 and 10.9 members. As of 2013, the average number of BOD members in Nikkei 225 companies[12] was 10.9, and that in TOPIX100 companies[13] was 12.1 (Spencer Stuart, 2013). The average size of the BODs in the Toyota Group's three automakers was larger than that in S&P 500 companies, Nikkei 225 companies, TOPIX100 companies, and the HM Group's two automakers; however, the Toyota Group's three automak-

[11]Standard & Poor's 500 (S&P 500) comprises 500 large companies that have common stock listed on the NYSE or NASDAQ.

[12]The Nikkei 225 companies are the top 225 blue-chip companies listed in the First Section of the Tokyo Stock Exchange.

[13]The TOPIX100 companies are the combination of the TOPIX core 30 companies and the TOPIX large 70 companies; they represent the top 100 most liquid and highly market capitalizations, and they are listed in the First Section of the Tokyo Stock Exchange.

ers have been gradually downsizing their BOD in recent times (see Figure 8). Despite showing such tendencies, the BOD of each of the companies studied was mainly organized by its internal executive officers. Therefore, one authority of the BOD was concentrated in the hands of its internal executive officers, with only a portion of the BOD's authority being distributed to outsiders.

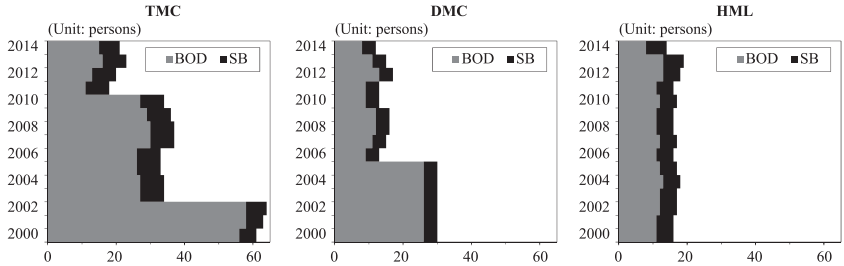
3.2.3 De facto *insider-centered small-sized supervisory board*

In contradistinction to the size of the BODs in the Toyota Group's three automakers—which has seen many changes—the size of their SBs has been very stable (see Figure 8). The SBs of the Toyota Group's three automakers are independent organizations that are separate from their BODs; the SBs are supervisory institutions that are meant to monitor the BODs, in which a supervisory function and an executive function are practically conjoined. Thus, it is essential to guarantee the role of their SB and vest it with authority corresponding to the size of their BOD. The presence of a large-sized BOD consisting mainly of internal executive officers indicates that authority corresponding to its size is concentrated in the BOD; therefore, a supervisory institution suitable to the size of the BOD is required. The size of the BOD and that of the SB needs to be kept in balance, and their roles and authority also need to be distributed in balance.

However, in the case of TMC, DMC, and HML, changes in the size of their SBs are irrelevant, compared to those in the size of their BODs over the last 15 years (see Figure 8). The size of their SBs has remained consistent, ranging from four to seven members, regardless of changes in the size of their BODs; the size of the SBs has remained constant, whether the BOD size was large or started to decrease. The fact that small-sized SBs were consistently maintained for quite some time lends weight to the inference that in the governance mechanism of the three automakers belonging to the Toyota Group, the authority of each governing organization was relatively concentrated in its BOD rather than in its SB. Therefore, it can be inferred that the BOD-oriented governance mechanism was strongly at work in TMC, DMC, and HML, despite the adoption of a dual-board system that clearly separates the BOD from the SB. Thus, it is difficult to conclude that their governance mechanism distributes authority to the BOD and SB in balance.

Along with arguments regarding the size and authority of the SB, a consideration of the role of the SB is also very important. In the governance mechanism of TMC, DMC, and HML that features the restricted participation of outsiders, each of their SBs is a governing organization in which outsiders are allowed to actively participate. In general, all three automakers are enthusiastic about the appointment of SB members from outside, and over the last 15 years, the percentage of SB membership comprising outsiders has shown a tendency to gradually increase (see Figure 9). As of March 2014, 50% of the SB of TMC comprised external members, while those of DMC and HML were 75% and 66.6%, respectively. (That is to say, either half or more than one-half of these companies' SB members were outsiders.) The

Figure 8. Large-sized BOD vs. small-sized SB.

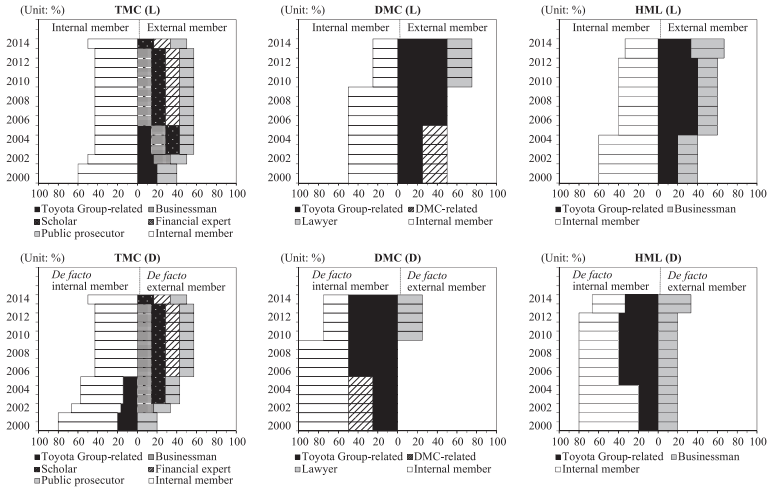


Note: All data are based on the companies' fiscal year.
Source: *Annual Securities Reports* of each company, for the indicated years.

inclusion of external members in their SBs at such high rates indicates that the active participation of outsiders in the SB, but not less than that of insiders, is guaranteed. Therefore, in considering the composition of an SB that includes outsiders, one can infer that the natural role of the SB—which is to be expected from the participation of outsiders in the SB—has been carried out by each SB at a very high level.

However, examinations of the previous work histories of the external members of each SB raise doubts about this inference. Data pertaining to external members reveal that, in the case of TMC, a senior executive of a Toyota Group-affiliated company (or its subsidiary company) was employed as an external member of its SB from 2000 to 2005. In the case of DMC and HML, senior executives of a Toyota Group-affiliated company (or its subsidiary company) were appointed as external members of their SBs from 2000 to 2014. As of March 2014, TMC had lined up an FSGO, a scholar, and a financial expert—all of whom are wholly unconnected with the Toyota Group—to serve on its SB; they constitute one-half of the SB members. However, in the case of both DMC and HML, the senior executives of the Toyota Group-related company were employed as external members of their SBs in the usual manner (see Figure 9). Therefore, it is possible that the level of expectation regarding the role of external members in SBs is not higher than what is actually the case with DMC's SB and HML's SB. Therefore, one cannot exclude the possibility that the natural role of the SB—which is expected from the participation of outsiders—was carried out at a very low level in each of the SBs. It is somewhat difficult to conclude whether the appointment of senior executives of a Toyota Group-related company as external SB members can be considered the appointment of SB members from the outside, *per se*; this is rather similar to the appointment of SB members from the inside. Thus, if we consider only the data in Figure 9, the composition ratio of the external members in each SB exceeds that of the internal members in each SB.

Figure 9. Composition ratio of SB members: Listed members vs. *de facto* members.



Note:
1. All data are based on the companies' fiscal year.
2. (L) stands for listed members in the *Annual Securities Reports* of each company, and (D) stands for *de facto* members as redefined by the author.
Source: Calculated by the author, using data from the *Annual Securities Reports* of each company, for the indicated years.

However, if we consider the "external members" related to the Toyota Group to be internal members, the composition ratio of the internal members in each SB exceeds that of the external SB members, because the external members related to the Toyota Group are no more than *de facto* company insiders. In other words, if we recalculate the composition ratio of the internal members in each SB by treating the Toyota Group-related external members as internal members, the composition ratio of the *de facto* internal members in TMC's SB will be 50%, while those of DMC's SB and HML's SB will be 75% and 66.6%, respectively. On the surface, it would appear that the composition ratio of the external members in each SB exceeds that of the internal SB members; however, in practice, it is closer to the opposite. Therefore, it would be more reasonable to consider the structure of the SB of the three automakers of the Toyota Group as one that features the restricted participation of outsiders. Overall, the governance mechanism in the three automakers of the Toyota Group can be considered an "insider-centered and BOD-biased governance mechanism," because all three automakers have a large-sized BOD that features the restricted participation of outsiders, as well as a small-sized SB with a restriction on the practical participation of outsiders.

4 Conclusion

This study attempted to describe the financing structures, ownership structures, and governance mechanisms of five automakers, by undertaking a comparative analysis of the automakers of the HM Group and of the Toyota Group. Emphasis was placed on extending an argument regarding the diversity of corporate systems, by determining their individual evolution processes.

First, our findings regarding each automaker's financing structure show that all five automakers in the two business groups rely heavily on self-financing in order to raise the funds they need to manage their business activities. The level of dependence on external financing among all five automakers has been gradually decreasing, while that on self-financing has been generally increasing.

Second, our findings indicate that the ownership structure of the each of the automakers belonging to the HM Group has evolved: it now retains, at a high level, the influence of a very small minority of insiders and affiliates of the HM Group, to ensure the smooth functioning of the *keiretsu*-based integrated production system. Furthermore, the typical ownership structure of the automakers belonging to the Toyota Group—which was found to have had a financial institution-oriented corporate ownership structure—has dissolved over time as the influence of financial institutions on these automakers has decreased; the ownership structure has evolved into one in which the continuous influence of foreign capital is on the rise.

Finally, our findings regarding the automakers' governance mechanisms show that each of the five automakers belonging to the two business groups had established a governance mechanism based on different types of corporate governance models. However, there is common ground among them: in practice, all of their governance mechanisms (regardless of the affiliated-business group) worked by a type of corporate governance model that rather differed from that which they had originally adopted; changes occurred because of the influence of conventional factors. The governance mechanisms of HMC and KMC, which belong to the HM Group, was fixed as an insider-biased single-board system, because of a social convention that has gained tacit acceptance in Korean society over time. On the other hand, the governance mechanism of TMC, DMC, and HML—all which belong to the Toyota Group—remained an insider-biased dual-board system, due to a corporate convention of that group; in that convention, there is a marked preference having Toyota Group-related individuals provide governance. Because of the influence of such a convention, the original role expected of the outsiders as members of the governing organizations and within the automakers' governance mechanisms was diminished. Therefore, we can conclude that the portion of the governing organization comprising outsiders is rather superficial: in reality, each automaker's governing organization is no different from one controlled by insiders. As such, the governing mechanisms of all five automakers are really quite similar.

Through its analysis of the five automakers' financing structures and ownership structures, this study calls attention to the weakening influence of outsiders, who are supposed to function as professional and systematic supervisors in monitoring corporate management. It was found that in all five automakers, the monitoring and supervisory function of management by financial institutions—which stems from funding being offered by financial intermediaries like banks—has been gradually decreasing, in line with these automakers' reduced levels of dependence on indirect financing. Moreover, in the case of HMC and KMC, the levels of monitoring by outsiders are falling due to the influence of a very small minority of insiders and affiliates of the HM Group. In the case of TMC, DMC, and HML, there has been a marked decline in the levels of monitoring by outsiders—who have previously and systematically carried out the monitoring and supervisory function of corporate management—because of a decrease in the influence of financial institutions and an increase in the influence of foreign capital.

All five automakers showed a trend of a reduced monitoring function involving outsiders. Therefore, we assigned great importance to each of their governing organizations—which practically substitute for the monitoring function—and attempted to analyze their governing organizations; we did so while focusing on their composition and size, the substantive role of their organization members, and the like. The results of our analysis of the governance mechanism of each company indicate that the governance mechanisms of the HM Group and the Toyota Group are no different in reality from one controlled by insiders—that is, in reality, all five automakers have a governance mechanism where the participation of outsiders is restricted, or where the participation of outsiders is merely perfunctory. This is because the original role expected of outsiders as members of the governing organization has been diminished, due to the influence of some sort of convention. Therefore, it really would be difficult to expect such governance mechanisms to monitor corporate management behavior as adequately as outsiders (e.g., financial institutions).

In recent years, there has been great progress on the study of corporate governance in Asia and worldwide. Clarke (2007) explores the structural features of Anglo–American, European, and Asia–Pacific corporate governance; that study also examines their macro-level differences and similarities. Additionally, Learmount (2002) empirically attempts to uncover corporate governance practices and processes in Japanese companies, and Cho (2002) analyzes the governance system of Korean firms in the context of the economic and institutional environment. However, to date, such studies have been largely broad in nature, with many describing a macro-level "Korean" or "Japanese" model that all companies supposedly follow. Such studies oversimplify the issue and do not allow for important distinctions among firms. In addition, comparative studies have made use of these oversimplifications in their attempt to draw broad conclusions about differences in corporate governance among countries.

In contrast to previous studies, the current study attempted to analyze and compare corporate governance in specific business groups (i.e., the Toyota

Group and the HM Group), while avoiding references to "Japanese" or "Korean" corporate governance stereotypes. To do so, we focused on uncovering the practical governance mechanisms of the automakers in the Toyota Group and those in the HM Group, rather than their superficial governance mechanisms. We found there to be significant discrepancies between their practical governance and their superficial governance. It is possible to expand the results of this study to existing theories of Japanese and Korean firms, as these results provide a "stepping stone" for arguments regarding the diversity of corporate systems created by a variety of corporate governance structures.

Nevertheless, a number of issues remain to be explored. In this study, there was a lack of scrutiny regarding those factors that have significant affected the transformation of the financing structures of the five automakers, and on why these five automakers rely heavily on self-financing to obtain the funds they need. This lack of scrutiny derived from our decision to focus not on the factors that affect their structural transformation, but rather on the direction of their evolution, through analyses of their financing structures. By exploring their direction of evolution, we were able to identify the attenuating influence of certain subjects—subjects who are supposed to function as professional and systematic supervisors in monitoring corporate management. However, we do acknowledge that by undertaking analyses of the factors that have influenced the transformation of the five automakers' financing structures, we could expand the body of research in this area and strengthen the arguments made here.

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