GOVERNANCE PRACTICES AND LONGEVITY OF JAPANESE FAMILY FIRMS. AN INSTITUTIONAL REVIEW AND FUTURE RESEARCH

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ABSTRACT
Japanese family firms are distinguished by various interesting yet different characteristics from their counterparts in other countries. Among these characteristics are the governing structure of the 'ie' system, the influencing role of 'codes of merchants', the adoption of non-blood sons to succeed to the business, and the long-lived phenomenon of century-old family firms. Despite numerous important studies explaining these characteristics, our essential knowledge about the rational logic behind them remains limited. Thus, to further aid our understanding of these characteristics and the logical essence, this article reviews a range of literature on institutional embeddedness, including socio-political history, cultural values, and religious influence on Japanese family firms. The article also proposes a research direction to comprehend better the institutional logics behind Japanese family firms and their behaviour.
KEYWORDS: *longevity, Japanese family firms, codes of merchants, 'ie' system, institutional logic.*

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Introduction

In line with the evolving direction of research on family businesses, research into Japanese family firms has emerged in recent decades, with the dominant research topics on corporate governance, including ownership structure, executive compensation and succession (Dinh, Calabrò, 2019). Nevertheless, apart from these dominant topics that are frequently explored in most family businesses around the world, some studies have explored unique governance practices that only apply to the Japanese context. Such unique research, for instance, focuses on century-old family firms (Goto, 2006, 2013), the rigid practice of the 'ie' system (understood as family stem or household headship) in governing a business (Bhappu, 2000; Yamanaka, 1963), the influencing role of codes of merchants in disciplining business ethics and behaviour (Goto, 2006; Ramseyer, 1979), and the adoption of non-blood sons to ensure the continuity of the business across generations (Mehrotra, Morck, Shim, Wiwattanakantang, 2013). Scholars argue that these forms of governance are among antecedents that account for the longevity phenomenon of Japanese family firms (Goto, 2006, 2013, 2014; Schwartz, 2017). While these practices may be perceived as 'normal' in the Japanese context, they are not universally implemented by most family firms around the world, or even within the Asian region (Goto, 2013).

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It is well known that family firms are two systems intertwined, the family and the business (Habbershon, Williams, MacMillan, 2003). Yet the family (system) is a lively unit in society, and is influenced by its institutional embeddedness, such as cultural values, social norms and religious beliefs (Dinh, Calabrò, 2019). Therefore, it is argued that the (unique) Japanese society may constitute a 'frame of reference' that shapes and orients Japanese family firms to act accordingly (Johansen, Waldorff, 2017). Indeed, scholars argue that the embedded context is the 'rules of the game', and prescribes definitions of social acceptability, and encourages and pressures 'actors' (families and firms) to behave in certain ways (Friedland, Alford, 1991; North, 1990; Thornton, Ocasio, 2008). Thus, in order to explain better the governance practices of Japanese family firms, it is necessary to understand the embedded institutional environment.

Despite the considerable number of studies on Japanese family firms, it seems that our knowledge on 'why' and 'how' this 'frame of reference' influences the behaviour of Japanese families, and the way they govern their business, remains fragmented. Therefore, this article reviews and discusses the prevailing range of literature on the socio-political history of Japan, including the family structure, cultural values and norms, as well as religious influence, to gain a broader understanding of Japanese family firms. The article aims to systematise the possibly influencing institutional factors embedded in ancient Japanese society, to explain and rationalise the 'unique' governance practices that account for the longevity of Japanese family firms.

The next section highlights some interesting facts and some of the most intriguing questions about Japanese family firms. The following section provides a holistic review of the social and institutional context during the Tokugawa period that strongly influenced and oriented the behaviour of Japanese family firms; this section depicts the life of merchants under Japanese feudal society, and rationalises the formation of codes of merchants. After that, the Japanese family structure and the role of the 'ie' system (family stem, household headship) in forming the organisational structure and governing Japanese family firms is reviewed and discussed. The article ends with a conclusion and suggestions for future research, to better explain the governance practices and longevity phenomenon of Japanese family firms.

Methods of research. The article employs the narrative and critical review method of empirical and theoretical studies on Japanese family firms, paying particular attention to governance practices and longevity. According to Baumeister and Leary (1997), the narrative review is more appropriate for combining and discussing various types of evidence from diverse methods used in reviewed articles. Additionally, because the article is a contextual framework paper, a critical review is valuable for discussing the evidence and constructing conceptual arguments (Podsakoff, MacKenzie, Lee, Podsakoff, 2003).

1. What do we know about Japanese family firms?

Perhaps one of the most interesting facts about Japanese family firms is their impressive long-lived business life. Research into the life-cycle of firms has suggested that the average lifetime of founder firms is 24 years, equivalent to the average life tenure of the founders (Lansberg, 1988). Only 30 per cent of family firms are able to succeed to the second generation of the family, with the number decreasing to 13 per cent for the third generation; and only 2 or 3 per cent of family businesses survive beyond the fourth generation (Vallejo, 2008; Ward, 1987). This statistic has been largely unchallenged, and moreover seems to suggest that there is something critically wrong with family firms, and that they are inevitably 'cursed' upon the three-generation survival trap (Zellweger, Nason, Nordqvist, 2012).

Contrary to the survival trap of family firms in other countries, Japanese family firms appear to be an exception to the third-generation curse. Japan has seven out of ten of the oldest family companies in the world, which have been in operation so far for up to 14 centuries, and it also has the highest concentration of old family businesses by any measure, such as portion of GDP, population and landmass (Schwartz, 2017). In a study of 3,505 long-lived firms worldwide that were older than 200 years by Goto (2006), Japan had by far the largest proportion, at 32.7 per cent (1,146 firms), followed by Germany (856 firms, or 24 per cent), and the Netherlands (240 firms, or 7 per cent). Japan is also listed at the top as having the oldest family firm, established in the year 578, followed by Germany in 768, and Austria in 1074 (Goto, 2006). Apart from these extreme cases of very old Japanese family firms that are surprising, at 52 years, the overall life expectancy of a Japanese family business is also higher in general, more than double that of its American counterparts (Goto, 2006).

Given these incredible facts, numerous questions arise. How do some family firms live for over centuries, while others decline early? Why are there so many of the world's oldest family businesses in Japan? What could be the possible reasons for this long-lived phenomenon of Japanese family firms? Meanwhile, there are numerous important factors that can account for the longevity of a firm, such as a well-defined business strategy (Astrachan, 2010), product innovation (De Massis, Frattini, Pizzurno, Cassia, 2015), family-specific resources and values (Rau, 2014; Zellweger et al., 2012), and industry-specific and economic development (Goto, 2006). However, these factors apply to other long-lived family businesses around the world as well.

In an effort to explain the long-lived phenomenon of Japanese family firms, scholars proffer the role of merchant philosophy reflected through the 'codes of merchant houses' and 'family precepts'. This philosophy emphasises persistence, frugality, diligence and a commitment to the business, which served as the underpinning principles of all merchants to help them survive and thrive (Bellah, 1957; Goto, 2006). Other scholars emphasise the function of the 'ie' system, the family structure understood as 'stem family' or 'household headship' that helped ancient Japanese families perpetuate their family lineage across the generations. The practice of the 'ie' system in Japanese business families functions as a governance structure ensuring that the business interests are put first and foremost before the needs of the family, and, when necessary, family members sacrifice their personal benefits for the benefits of the 'ie' (Goto, 2013; Schwartz, 2017; Shimizu, 1987). Additionally, others argue that the traditional practice of adult child adoption helps Japanese family firms to replace incompetent blood sons, reduce agency problems, effectively manage executive compensation, and avoid the 'race to the bottom' in inherited firms, yet the socio-emotional wealth is sustained through the generations (Bertrand, Johnson, Samphantharak, Schoar, 2008; Dinh, Calabrò, 2019; Mehrotra et al., 2013).

Although these studies are important in extending our knowledge about Japanese family firms and their unique governance practices, numerous questions are still left unanswered. For example, we may ask: Why were the 'codes of merchant houses' and family precepts created in the first place? Why did they pertain to such principles? What constitutes the 'ie' system? And why did Japanese entrepreneurs abide rigidly by this system? And more importantly, what are the connections between these factors, and how can they be explained logically in a more systematic way? The next section provides an institutional context in which ancient Japanese family firms evolved, to help make sense of potential and logical answers to these questions.

2. Japanese merchants during the feudal Tokugawa period

Perhaps in the history of the socio-political and economic development of Japan, the Tokugawa period (also known as the Edo period), between 1603 and 1868, had a significant impact on the development of family businesses, and later on the modernisation of Japan's economy (Kumagai, 1986). This is not to say that family businesses did not exist prior to the Tokugawa period, but that the Tokugawa government enforced hostile policies against the merchant class, fearing possible turmoil in the hierarchical social class structure composed of warriors (samurai), peasants/farmers, craftsmen/artisans, and merchants (Goto, 2013). This period witnessed the prosperity of merchants in commercial and financial operations, as well as the economic dependence and decline of the samurai class (Goto, 2006). The Tokugawa government saw the economically rising merchants as a threat, and subsequently seized the property of wealthy merchants. As a consequence, this led to desperation among the merchant class to protect their family wealth (Goto, 2006; Sheldon, 1983). The following subsection provides a review of the hostile environment that the merchant class faced during the Tokugawa period.

2.1 The feudal system during the Tokugawa period in Japan

Indeed, numerous studies focus on the Tokugawa period when investigating possible contributing factors to the longevity of Japanese family firms, such as codes of merchants, family precepts, and the role of the 'ie' system (Goto, 2006; Ramseyer, 1979; Sheldon, 1983; Yamanaka, 1963). During the Tokugawa period

(1603–1868), Japanese society was under the rule of the Tokugawa Shogunate (the last feudal Japanese military government). The head of the government was the Shogun, and the Tokugawa Shogunate ruled from Edo Castle. This is the reason why this period is also known as the Edo period (Nussbaum, 2002).

When Japan was unified in the late 16th century after a long period of chaos and internecine warfare, the first goal of the Tokugawa government was to pacify the country. Thus, common people, except the samurai, were dispossessed of weapons. Below the emperor and the noble class, the social order was fundamentally established, and was divided into four main classes: (i) the samurai, (ii) the farmer/peasant, (iii) the artisan/craftsman, and (iv) the merchant class (Kumagai, 1986). According to this hierarchical structure of ancient Japanese society, the samurai were at the top, followed by the farmers and then the artisans, and the merchants were at the bottom (Beasley, 1972). There are different explanations for this. Some argue that because Japan's economy in the 1600s was still a mainly agrarian one, the prevailing political wisdom was that the samurai and the farmers should be the principal concern of the rulers. While the samurai worked directly for the ruling class, i.e. the shogun and *daimyo* (the Japanese feudal lords), the farmers cultivated and produced agricultural products, and the artisans or craftsmen provided services required by the samurai class, such as making weapons (Sheldon, 1983). On the contrary, the merchants were considered not to play a significant role or produce any goods, so their activities were thought to be of no importance in society (Sheldon, 1983). Some scholars argue that during the Tokugawa period, merchants possessed economic power superior to that of the samurai class, hence they were placed at the bottom of the hierarchy, so that they would not be a threat to the samurai warriors (Kumagai, 1986). Others contend that Confucian ideology, which was taken as the moral code of the Japanese at that time, considered monetary transactions and commercial activity to be the root of avarice, jealousy, unfaithfulness, crime and evil. Therefore, merchants' work was considered as being shameful, and a disgrace to Confucian virtues, such as love, harmony, compassion, faithfulness and benevolence (Ornatowski, 1996). Some Tokugawa philosophers even considered merchants to be social parasites (Ramseyer, 1979). There was a widespread exhortation throughout the country to look down on the merchant class, for instance: 'The offspring of a toad is a toad; the offspring of a merchant is a merchant' (Bellah, 1957). Furthermore, it should be noted that movement from class to class was, in principle, prohibited. For instance, Ramseyer (1979) reports the case of an ambitious merchant during the Edo period who aspired to dress like the samurai, but was eventually killed by them. The strict class distinctions were established by force or threat of force, leading to the long tradition and general acceptance of this social order (Sheldon, 1983). This was in contrast to Chinese feudal society, in which making money was often seen as a way to leverage one's social rank by buying land and sending sons to schools to become government officials if they pass the examinations (Wee, Combe, 2009).

As discrimination towards the merchants increased, the Tokugawa government set high rates of tax on all financial and commercial activities operated by merchants, ranging from 35 to 40 per cent. In contrast, if the *daimyo* (feudal lords) or the samurai borrowed from merchant moneylenders, interest rates were legally limited to a maximum of 15 per cent, and at times 10 per cent (Yamanaka, 1963). Indeed, it was impossible for the Tokugawa rulers to accept the fact that the *daimyo* and samurai could be in debt to the merchants. To avoid and reject this reality, suits for non-payment were generally discouraged, and the courts often refused to hear cases involving overdue debts by samurais to merchants (Yamanaka, 1963). This situation was exaggerated during the Kyoho period (1716–1735), when the Shogun Yoshimune barred the courts from hearing litigation by merchants to recover unpaid loans owed to them by the samurai and the *daimyo* (Henderson, 1952).

The discrimination towards the merchants succeeded when the Tokugawa government enforced multiple policies against the merchants, such as the confiscation of property, collecting fees from trade associations, forced loans, the continued reduction of loan interest rates, and the refusal to pay debts (Smith, 1937). It was argued that the fact that the feudal authorities were ultimately responsible for the debts of their feudal retainers (the samurai) was the main reason behind these hostile policies (Sheldon, 1983).

Despite various factors exaggerating the hostile activities toward merchants during the Tokugawa period, it is argued that the rigid social order, which was enforced by the ruling class, was destined to worsen the situation. The fact that the samurai were legally prohibited from engaging in trade gave the merchants a substantial monopoly, of which they took full advantage in order to develop and expand their financial and commercial operations (Morck, Nakamura, 2005). The merchants realised that in this hostile environment it was important for them to work diligently and ingratiate themselves with the feudal rulers, making their services indispensable to them (Goto, 2006). The merchants also organised their activities into monopolistic structured organisations, to improve and protect their position in society (Kikkawa, 1995). On the other hand, a large number of samurai were in debt to merchant moneylenders due to the large number of underemployed samurai that had become accustomed to the expensive and high standard of living which they considered appropriate to their social rank (Sheldon, 1983). Yet by the end of the 17th century, Japan experienced a sharp increase in its population, from about 18 million in 1600 to 28 million in 1700. This led to the extravagant absorption of agricultural products, while agricultural production also experienced years of bad crops on the limited exploitable land, in addition to the poor cultivation techniques of the time (Horie, 1967; Sheldon, 1983).

As a consequence, this significantly affected the samurai class, whose income was vastly dependent on the rice contributed by farmers and peasants[3] (Bhappu, 2000). Furthermore, the overspending habit of the samurai, in addition to their increasing unpaid debts to the merchants, worsened the situation, and badly undermined the samurai class financially. This altogether damaged the financial condition of the samurai class, and consequently amplified the tension between the merchants and the feudal rulers during this period.

2.2 Codes of merchants as a management philosophy towards the hostile environment

Despite being discriminated against, the merchants continued to prosper during the Tokugawa period, especially those who lived and operated their business in the cities and castle towns, such as Edo, Osaka, Kyoto, Fushimi, Sakai and Nagasaki (Goto, 2013). Many studies argue that the prosperity of the merchant class in feudal Japanese society and the longevity of Japanese family firms today are greatly attributed to the conduct of codes of merchants (Beardsley, Smith, 2013; Bellah, 1957; Goto, 2006, 2013; Ramseyer, 1979; Yamanaka, 1963).

Nonetheless, among these studies, perhaps the recent work of Goto (2013) provides the most comprehensive review of codes of merchants as the driving force that fosters the longevity of centuries-old Japanese family firms. Accordingly, a total of 262 written and unwritten family constitutions, family precepts or codes were reviewed, in which 32 of them (12 per cent) were called a family constitution, while most of the rest are called a precept, memorandum or testament (Goto, 2013). Despite some different views and attitudes among the codes of different merchant houses, these codes or precepts commonly promoted the importance of conducting a legitimate business and ethical conduct, reiterated that ‘virtue is the root and wealth is the result’, and emphasised frugality and diligence (Goto, 2013).

It is presumed that merchants wrote their codes in response to the hostile attitude of the ruling class during the Tokugawa period. In this line of argument, the codes of merchants pertained to urge their descendants and employees to be frugal because the Tokugawa government demanded it (Sheldon, 1983), and also to implicitly claim that their social role is worth no less than the samurai (Goto, 2006; Ramseyer, 1979). Indeed, the Tokugawa government issued numerous strict regulations specifying the luxuries in which merchants could indulge. The tension was exaggerated especially in the middle of the 17th century, when the merchants in cities and castle towns prospered, and they spent and dressed sumptuously in attractive quarters (Sheldon, 1983). These regulations forbade merchants to flaunt their wealth, as it was against Confucian values, such as frugality and modesty, which the government promoted on one hand, and on the other hand to avoid undermining the morale of the financially strapped lower-ranking samurai (Shively, 1964). According to Ramseyer’s work (1979), there were a few cases when the Tokugawa government confiscated a merchant’s property, such as the wealthy Yodoya family in 1705, for their haughty and presumptuous behaviour; or the case of the

[3] During the Edo era, the Shogun apportioned lands and assigned to the samurai to control. The samurai then distributed these lands to farmers and peasants to cultivate for their living. In return, the samurai received stipend from the Shogun and rice from farmers/peasants as a tribute. Yet farmers and peasants still had to pay taxes to the government (Bhappu, 2000).

merchant Ishikawa Rokubei, who was banished and his property was confiscated, because his wife and her servants dressed too sumptuously (Shively, 1964). Individual samurai could also discipline merchants whom they considered insubordinate. This forced merchants to be more cautious and react accordingly, as the code of the Ichida house begins: ‘Obey exactly all regulations established by the authorities’ (Ramseyer, 1979).

Nevertheless, the Tokugawa government and many philosophers of the time retained their hostile view of merchants as social parasites. They argued that merchants’ wealth did not necessarily correlate with official status. They insisted that ‘merchants should not live too well, certainly not better than the rulers’ betters’ (Sheldon, 1983, p. 486). It was profoundly disturbing to see merchants, as the lowest class in the social hierarchy, enjoy a higher standard of living than the upper samurai, and even the *daimyo* (Sheldon, 1983; Shively, 1964). Although merchants were fully conscious of the necessity to obey the ruling class through their codes of conduct, they implicitly denied that they were social parasites. Indeed, they argued that wealth was a result of hard work and frugal habits. As the code of the Mitsui house wrote: ‘One who keeps working will never be poor. If you work diligently and avoid luxury scrupulously, you will ensure the prosperity of your family and descendants’ (Ramseyer, 1979). They also justified that the way the merchants existed was as fully worthwhile as the way of the samurai. This can be seen in the code of the Okaya house (1836): ‘Samurai study the martial arts and work in government. Famers till their land and pay their taxes. Artisans labour at their family industries and pass on to their children their family traditions. Merchants have trading as their duty, and must trade diligently and honestly. Each of the four classes has its own way, and that way is its true way’ (Ramseyer, 1979). Supporting this view, Ishida Baigan (1685–1754), the most influential ideologist, denied any intrinsic difference between human beings, and emphasised the service of merchants to society (Goto, 2006, 2013). For instance, some of Baigan’s ideas can be found in Bellah’s work (1957), as follows: ‘Commerce is absolutely indispensable in daily life, hence it is wrong to despise money or hold commerce in contempt (…) There is nothing shameful about selling things. What is shameful is the conduct of men who fail to pay their debts to merchants (…) Obtaining profit from sale is the way of the merchant. The merchant’s profit from sale is like the samurai’s stipend. No profit from sale would be like the samurai serving without a stipend.’

Although the merchant and ruling class had opposing views on the role of merchants in society, interestingly enough, it seems that merchants’ moral philosophy was in many ways very similar to that of the samurai class. Both the samurai and the merchants were encouraged to be diligent, frugal, obedient to their superiors (or their masters and/or the elders in the family), and concerned about their family’s reputation. However, this is not so surprising when one takes into account the strong influence of the Confucian philosophical system that had a tremendous influence throughout East Asia (Dinh, Hilmarsson, 2020), and was introduced to Japan in AD 513 (Boardman, Kato, 2003). Neo-Confucianism, which interpreted nature and society as based on metaphysical principles and was influenced by Buddhist and Taoist ideas, obliged humans to maintain family stability and social responsibility (Boardman, Kato, 2003; Hofstede, Bond, 1988). Yet it provided a hierarchical system, in which each person was expected to act in accordance with his social status to create harmony in society and ensure loyalty to his superior (Chen, Chen, 2004; Ornatowski, 1996). Therefore, the Tokugawa rulers opted for and used Confucian values as orthodox, and sanctioned virtues to uphold the social order (Goto, 2013). The merchant class considered these values as ‘profitable’ virtues that disciplined them to work hard, respect and obey the instructions of their ancestors, and thus to preserve their economic power through generations (Dollinger, 1988; Goto, 2006). This was the philosophical foundation that the merchants’ codes of conduct were built upon. In addition, other religious values also influenced their business ethics, such as Buddhism, which prioritised altruistic activity, and Shinto natural spirituality, which incorporated spiritual practices derived from regional prehistoric traditions (Goto, 2013).

However, a generalisation of the governance behaviour of Japanese family firms based on these codes of merchants can be precarious. This is because not all the merchants wrote codes, and not all the codes of merchants promote the same views and attitudes. The difference can be more substantial among merchants of different types of work, such as copper mine owners, hardware store owners, or sake brewers (see Ramseyer 1979 for detail). Additionally, the earliest codes were documented in about 1610, while many were prepared in the early 18th century and later during the Meiji era (1868–1912), thus, merchants' views and ideology could also be time-variant (Goto, 2013). Nonetheless, scholars generally suggest that the codes of merchants emphasising diligence, frugality, compliance and the fulfilment of duty, and the sacrifice of individual interests to the interests of the community, are contributory factors among others (such as the role of the 'ie' system) that foster the longevity of centuries-old Japanese family firms (Adachi, 1970; Goto, 2006, 2013; Horide, 2000; Sasaki, Sone, 2015; Schwartz, 2017; Zellweger et al., 2012). But one line of this research topic also suggests that codes of merchants limit entrepreneurship, as these codes prohibit risky ventures or changes in business practice. This can be seen in the codes of the Mitsui house: 'Be always careful and cautious in your work, or your business will fail.' Or the code of the Ichida house, which states: 'Follow carefully the traditions of operating our shop. You must help each other resist modern influences, so that you can instead follow the customs established long ago' (Ramseyer, 1979).

3. Family structure: the 'ie' system and management in Japanese family firms

Apart from the 'codes of merchants', another factor that scholars tend to argue as accounting for longevity is the governing role of the 'ie' system in Japanese family firms. It is argued that the behavioural and structural patterns observed especially in large Japanese family firms today are deeply rooted in the construct of the 'ie' system and feudal paternalism (Bhappu, 2000; Schwartz, 2017). It may be very precarious to comprehend the essence of governance practices in Japanese family firms without taking into account their family structure and the concept of the 'ie' (commonly understood as stem family or household headship). Therefore, it is appropriate to shed further light on the structure of the Japanese family, and the 'ie' system, as this will aid our understanding of management and succession practices in Japanese family firms.

3.1 Family structure: the 'ie' system

First of all, we need to distinguish between the ordinary family structure and the assimilation of this structure in the organisational structure of family firms in Japan. The family system (ie) in Japanese society originated from the feudal family structure that came into existence in the Tokugawa era (Bhappu, 2000).

The Chinese[4] character for 'ie' [家] signifies people under the same roof. It depicts the roof at the top, and the people are at the bottom of the character (Kumagai, 1986: 3). Nonetheless, 'ie' is not only the concept but also a perpetual entity independent of the members who constitute it (Horie, 1967). According to Kumagai (1989), the family system during the Tokugawa period was feudal in three ways. Firstly, inter-class marriage was prohibited, and resulted in ostracism. Secondly, there existed a clear hierarchy of power in the family based on gender and generation. Thirdly, the succession of the household headship or the carriage of the family name and business was codified on this basic hierarchy of power and responsibility. Specifically, the nuclear family during the Edo period consisted of the 'household head' (the father), the *shutome* (the mother), the sons (and/or daughters), and the son's wife, *yome*. Each family member had different roles and responsibilities. Like the Chinese Confucian family system, yet with some differences, the mother (*shutome*) was responsible for educating the daughter-in-law (*yome*) about the family's norms and traditions. In return, the daughter-in-law had to assimilate with the customs of her husband's family, and depended solely on her ability to produce children, especially a son, to ensure the family lineage (Kumagai, 1986). On the other hand, the oldest son was expected to succeed to the headship of his house (the 'ie') that was passed down from his father when the time came. More detail of this practice in connection with family firms will be discussed in the next section. Nonetheless, the house headship was not simply the head of a family (family head), as a person who had access to tangible assets, such as lands, houses, and/or the father's occupation, but also a symbol of the 'ie', including reputation, class and rank (Bhappu, 2000). Therefore, succeeding to the 'ie' is an alternation of the representative of the household headship across generations. Simultaneously,

[4] Prior to the 3rd century, ancient Japanese had no writing system and they borrowed Chinese characters to develop their written form (Frellesvig, 2010).

the successor had rights and duties transferred to him to ensure the continuity of the 'ie' during his tenure (Kumagai, 1986; Nakauchi, Wiersema, 2015; Yamaguchi, 2001; Yamanaka, 1963). Furthermore, loyalty and subordination to the 'ie' were the first obligation of all of its members, including the servants and/or employees in the case of business families. Indeed, without any doubt, it was thought that individuals should sacrifice themselves, if necessary, for the perpetuity and prosperity of the 'ie'. Even the house head himself lived not for his own sake, but for the sake of the 'ie' (Horie, 1967).

Although Kumagai (1986) reports that during the Tokugawa period, the 'ie' system only existed among the upper social classes, in other words the Shogunate and samurai warriors, many other studies tend to document 'ie' as a universal system for the structure of all families, including the merchant class (Bhappu, 2000; Goto, 2006, 2013; Horie, 1967; Yamanaka, 1963). However, the difference between feudal classes might be that, for instance, a merchant family usually established branch families (*bunke*), and conducted business in a remote area besides the main family (*honke*), which conducted business in the main cities. A farming family, on the other hand, could not always divide its farmland, since the farm was the basis of its economic strength. Thus, an extended family was formed, and a person who was then responsible for taking care of other members of the immediate family inherited the household headship. And the rest of the family, regardless of gender and age differences, were expected to work together on their farms (Gleason, 1964; Sheldon, 1983). But either the branch families (in the case of merchant families) or members of the immediate family had to be subordinate to the main family or the household head respectively (Horie, 1967).

Nonetheless, family structure in Japan has changed dramatically since the enactment[5] of the new Civil Code in 1949 after the Second World War, in which the 'ie' system (household head) was abolished, and the family unit was defined to include only the husband, wife and children. From a legal point of view, rights between the husband and wife are equalised, and the household headship no longer exists. The extended family (of the son) became independent of his parents' family, and both families were accorded equal positions in the larger family context (Gleason, 1964; Sheldon, 1983). Technically, this new practice significantly rejected the old direct-lineage family system. In fact, to a large extent, such equality and independence in the family has not been realised. Governance practices derived from the 'ie' system are still observed, and can be seen in many organisational structures, especially in long-lived family firms and large business groups (Bhappu, 2000; Morikawa, 2001).

3.2 The 'ie' system and its role in the succession of Japanese family firms

One of the ultimate mandates of the 'ie' system during the Tokugawa, and later on the Meiji, period was to preserve the continuity of the household headship through the generations (Schwartz, 2017), by specifying that only one son, usually the oldest, inherited the family's property (such as the buildings and land) and became the head of the family or household head. Additionally, the 'ie' system also specified that family property was supposed to be kept going and consolidated within the family, and not dissipated, transferred, or shared with others (Yamanaka, 1963). Consequently, studies on centuries-old Japanese family firms have argued that the 'ie' system, with its governing role, act as a contributing factor to their longevity (Beardsley, Smith, 2013; Goto, 2013; Horie, 1967; Schwartz, 2017). These studies certainly make an important contribution towards revealing the 'secrets' of family business longevity in Japan. However, the essence of the 'ie' formation, and the logic why this system was bound to such mandates, has not been sufficiently addressed in current research, except by the works of Yamanaka (1963) and Horie (1967). Thus, this section discusses the formation of the 'ie' system, and explains why this system pertains to such mandates, and its role in the succession process.

During the Tokugawa period, the government depended on the taxes paid by farmers and peasants for financial support. Despite being the bottom social rank and considered as social parasites, the merchant class turned out to prosper, and gradually became wealthy, and even superior to the samurai class (Sheldon, 1983). The feudal government, therefore, had to find a way to take the wealth produced by the merchants. The standard for

[5] The earlier Civil Code in 1898 was to officially abolish the feudal era with a class system.

taxes at that time was decided by the amount of frontage (*nokiyaku*). Thus, it was important for the government to locate and control a merchant's buildings and lands. However, unlike a farmer's or a peasant's assets, the merchant's property was more exchangeable. Therefore, the rulers strictly limited a merchant when selling his buildings and lands (Yamanaka, 1963). Nevertheless, a number of problems emerged: how to know who made the best successor, and how to make it easier to trace the property if it was sold. As a result, the rulers enacted a law of succession that allowed only the oldest son to succeed to the property. It also declared that an inheritance must not be shared with any other family members (Steenstrup, 1996). By specifying the eldest son as the only successor, it naturally complied with the Confucian principle that upheld the hierarchical order of the feudal system, such as male versus female, and senior versus junior (Dinh, Hilmarsson, 2020; King, 1991). But the requirement that an inheritance was not to be shared with others was to facilitate the rulers in easily controlling and taxing the merchants' consolidated property (Yamanaka, 1963). Although the law ordered the oldest son to be the successor, in practice the (father) merchant could appoint a younger son in his will to be the successor, which had to be reported to the municipal office and also the government branch office in Kyoto. According to Yamanaka (1963), this was because a capable person could keep going and consolidate the family property, and that was what the rulers expected. In the event a merchant's property was sold, he had keep the municipal officials informed and report the name of the new owner. If a merchant failed to obey this order, his property, such as lands and buildings, would be confiscated by the rulers (Yamanaka, 1963).

Thus, we can now see that the idea of only one son, usually the oldest, inheriting the family headship was not initially or solely decided by the merchants themselves. The rule that an inheritance could not be transferred or shared with any others was especially so that the feudal government could easily control and tax the consolidated property. This was the main difference compared to the Chinese feudal system, in which a family property could be divided among the sons at the time of death (Bhappu, 2000). Nonetheless, in this context, on one hand, Japanese merchants seem to have obeyed the strict succession law; on the other hand, they stabilised their commercial houses efficiently, and avoided their property being undermined by their descendants through the succession rules. They described these rules in their house codes or family precepts, and circulated them secretly only within the 'ie' (Ramseyer, 1979). Studying the codes of the Mitsui house, Yamanaka (1963) reports that the succession was described as follows: 'The successor is to inherit the merchant father's occupation or business. The descendant's duties are to attend to his father's occupation' (p. 10). From the merchant's point of view, father's occupation is most important for them, and it should be superior to all other things, even lands or buildings (Yamanaka, 1963). Therefore, their 'secret' rule described in the succession process was that after one had become a household head, when he proved unable to keep and make his father's occupation prosper, he lost his position as household head (Horie, 1967). This person was then disinherited, and a new successor was selected by his relatives, managers and clerks (Yamanaka, 1963). If there was no son, or the only blood son was incompetent, the merchant's occupation could be carried on by an adopted son, who was selected from kin or non-kin, such as relatives, a son-in-law, or an apprentice, so-called non-blood sons (Dinh, Calabrò, 2019; Mehrotra et al., 2013) to ensure the existence of both the 'ie' and the business (Goto, 2013). This suggests that the 'ie' system set limits to the successor carrying on the business. Indeed, the true successor to the merchant father's occupation is not the household head as an individual, but the 'merchant House' itself. A household head is only the representative of this 'merchant House'. This 'House' is not simply equal to houses or buildings as physical objects, it is the 'ie', which is constituted by kinship, servants, tenants, occupation, corporations and material property (Bhappu, 2000; Horie, 1967). In other words, the succession is thought of as an alternation of the representatives of the 'merchant House', and the inherited head was supposed to make the heritage prosper for the common benefit of the 'ie' as a whole, and not for his own or any other private purpose (Sasaki, Sone, 2015; Tsutsumi, 2001).

3.3 Implications of the 'ie' system for Japanese family business groups: Dozuku, Zaibatsu and Keiretsu

Since the Edo era, Japan's socio-political system has gone through different stages of institutional evolution. Despite the legislative revolution of modernised Japanese society with the abolition of the household head, practices derived from the 'ie' system are still observed in many organisational structures, especially in large Japanese family firms (Goto, 2006; Horide, 2000). Indeed, it is argued that the 'ie' system as an institution has influenced and guided Japanese business families for hundreds of years since the Edo era until today (Beardsley, Smith, 2013; Goto, 2013).

Based on the 'ie' system, the organisational structure of sizeable merchant houses during the Tokogawa period was composed of the main house (*honke*), associate houses (*renke*), branch houses (*bunke*), and distant houses (*bekke*) (Goto, 2013). These houses were listed in descending order of their authority in relation to the main house(s). Together they constituted a greater 'ie' of a 'merchant House', and were called *Dozoku* in Bhappu (2000) and Nagai (1953), or *Dozokudan* in Goto (2013). Dozoku can be understood as a business conglomerate/group based mainly on kinship (Kim, Kandemir, Cavusgil, 2004). Since only one son could inherit the household headship of the main house (*honke ie*), the other sons would have to leave the *honke ie* and establish branch houses (*bunke ie*), and become heads of these *bunke ie* with the permission of the headship of the main house (Bhappu, 2000). On the other hand, the distant houses (*bekke*) were granted to non-family senior managers, and they became heads of *bekke ie*. To avoid conflict with the main house, *bunke ie* and *bekke ie* carried on the same line of business in remote areas or carried on a totally different line of business. They were supposed to support and keep the *honke ie* prosperous, not only in the current generation but also in perpetuity. In return, they both received financial support, the know-how of the trade, or the franchise name from the main house (Goto, 2013). When it came to the succession, if the main house did not have an appropriate successor, the other houses were obliged to propose a suitable candidate of their own (Goto, 2014).

A derived version of the 'ie' system continued to be observed in large family corporations from the Meiji era (1868–1912) to the end of the Second World War. Large family businesses that were well connected with the government and had industrialised the economy were called *Zaibatsu* (Morikawa, 1992). The structure and the way zaibatsu operated were similar to that of dozoku, but to a greater extent in strategic industries, and with intensive capital investment. Sometimes they were in the form of shareholding companies to control the branch houses (Bhappu, 2000). Nonetheless, after the Second World War, the Allied Occupation Forces abolished the zaibatsu structure, attempting to reduce the strong control of these family business groups over the country's industrial economy (Okazaki, 2001). However, after this anti-zaibatsu sentiment diminished, the structure was restored in Japanese family business groups, and is nowadays called *Keiretsu* (Lincoln, Gerlach, Ahmadjian, 1996).

Without any doubt, the family structure, the 'ie' system, that existed primarily during the Tokugawa period, has become an economic institution in the development of the social and political revolution of Japan. Its influence is still seen in many Japanese family corporations. With the hierarchical structure and rigid principles aiming to sustain the perpetual growth of the family and its business, scholars argue that the 'ie' system is a factor contributing to the longevity of numerous Japanese family firms (Goto, 2013, 2014; Schwartz, 2017; Yamanaka, 1963).

Concluding remarks and future research direction

Japanese family firms appear to be different from their counterparts in other countries, due to certain characteristics of their management, as discussed above. Among them are, for instance, the influencing role of codes of merchant houses, the practice of adult child adoption to succeed to the business, and the persistent implications of the 'ie' system in structuring and governing the business. Numerous studies have investigated these characteristics, and tend to suggest that these characteristics play a significant role, among others, in contributing to the longevity of Japanese family firms. However, many of these studies have not provided a sufficiently holistic explanation as to why and how these different characteristics essentially came into existence.

Through the prevailing range of literature on different aspects of the institutional context in which Japanese family firms were embedded since the Tokogawa period, this article systematically rationalises the possible relevant logic for these characteristics. Indeed, institutional theorists argue that the surrounding institutional environment (such as the law, political system, cultural values and social norms) are 'the rules of the game' that shape and influence the behaviour of the actors embedded in it (North, 1990; Thornton, Ocasio, 2008; Williamson, 2000). In the light of this argument, it might be argued that the Tokugawa era (1603–1868) resulted in an 'institutional framework' that has shaped and oriented the behaviour of Japanese family firms, even until now. Specifically, the codes of the merchants and family precepts were prepared to respond to hostile discrimination by the feudal rulers, yet these codes and precepts were philosophically influenced by cultural values, that is, the virtues of Confucianism, to discipline their descendants to work hard, exercise thrift, and conduct their business ethically. Additionally, the feudal family structure (the 'ie' system) during the Tokugawa period forced Japanese families, on one hand, to produce an heir to ensure the family lineage and inherit their occupation; and on the other hand, they were reinforced by feudal rulers to keep alive and consolidate their inheritance. Under the pressure of preserving and transferring the family occupation across the generations, and being formally forced by the rulers, the merchants opted to adopt a non-blood son as an alternative, if no capable blood son was available to inherit the 'ie' and the business. This has been practised over hundreds of years since the 16th century, and has had a strong impact and influence on the way Japanese family firms govern and structure their businesses up to this day. This article attempts to provide readers with a logical and sequential picture of why and how the embedded institutional context has influenced the behaviour of Japanese family firms since the feudal society of the 16th century until now.

However, from a theoretical point of view, it is observed that the literature investigating this characteristic has not sufficiently incorporated a sound theoretical framework that can theoretically better explain the sequential logic. Some exceptions may be the recent work by Goto (2013), who explains the 'secrets' of family business longevity in Japan through the lens of social capital theory,[6] or the work by Mehrotra et al. (2013) on adult child adoption that may challenge the agency theory (Jensen, Meckling, 1976) and complement socio-emotional wealth preservation (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson Moyano-Fuentes, 2007). However, these studies alone are not enough to fully understand the aforementioned characteristics, and more importantly, the theoretically logical connections of these characteristics as a whole. Since family firms are influenced by various different levels of institutions, such as the family level (family values and norms), the firm level (organisational structure and regulations), and the national level (cultural values, religious influence, and laws) (Dinh, Calabrò, 2019; Schiehll, Ahmadjian, Filatotchev, 2014), future research should incorporate different 'bundles' of institutional levels to capture more comprehensively and essentially the logic in which firms choose their governance structure (Schiehll et al., 2014). Among potential theoretical frameworks, future research may employ institutional logics theory (Friedland, Alford, 1991; Thornton, Ocasio, 2008; Thornton, Ocasio, Lounsbury, 2012) to explain the logical connections between the governance practices of Japanese family firms. Institutional logic offers different logical orders, including state, religion, family and corporate (business/occupation) logic, which demarcates the 'unique organising principles and practices that influence individual and organisational behaviour (Thornton et al., 2012). Indeed, institutional logic may constitute a theoretical framework that helps connect and disentangle these principles and practices, helping the actors (family owners and their firms) make sense of their world and orient their actions and identities (Johansen, Waldorff, 2017). Consequently, these institutional logics both enable and constrain one another, and together they shape the behaviour of ancient Japanese merchants as individuals, and family firms as organisations.

Incorporating the theoretical framework of institutional logic may potentially explain why Japanese family firms are different to their counterparts in other countries. More importantly, it helps researchers to unlock these characteristics of Japanese family firms in a logical, yet institutionally embodied way (Bhappu, 2000).

[6] It is worth mentioning that some studies outside Japan emphasise the advantage of lower agency costs and elicit attitudes of stewardship (Miller, Breton-Miller, 2006). Other studies contend the entrepreneurial family business model, allowing a wise growth strategy based on family vision and growth of family members through professional work experience outside the family, enhancing the continued success of the family business throughout the generations (Schwass, 2006).

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JAPONIJOS ŠEIMOS ĮMONIŲ VALDYMO PRAKTIKA IR TĘSTINUMAS: INSTITUCINIS KONTEKSTAS IR ATEITIES TYRIMŲ ĮŽVALGOS

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Santrauka

Japonijos šeimos įmonės, palyginti su tokiomis pačiomis įmonėmis kitose šalyse, pasižymi išskirtinėmis savybėmis. Tai ir japoniškos „ie“ sistemos valdymo struktūra (namų ūkio valdymas pagrįstas šeimos kilme), ir pirklių etikos kodekso laikymasis (pirkliai turi būti darbštūs ir sąžiningai prekiauti), ir „netikro sūnaus“ įtraukimas (turimas galvoje koks kaimynas ar pan.), siekiant sėkmingo verslo. Tai ilgaamžė – šimtamečius trunkanti šeimos įmonių tradicija. Taigi siekiant geriau suprasti išskirtines Japonijos šeimos įmonių savybes ir logiką, šiame straipsnyje apžvelgiama literatūra apie Japonijos šeimų valdymo praktiką, įskaitant socialinę-politinę istoriją, kultūros vertybes ir religijos įtaką japonų šeimos įmonėms.

Straipsnyje siekiama susisteminti galimus įtaką darančius institucinius veiksnius, įtvirtintus senovės Japonijos visuomenėje, siekiant paaiškinti ir racionalizuoti „unikalią“ valdymo praktiką, priskiriamą japonų šeimos įmonių ilgaamžiškumui. Pateikiami įdomiausi faktai apie Japonijos šeimos įmones, išsami Tokugavos laikotarpio socialinio ir institucinio konteksto, kuris darė įtaką japonų šeimos įmonių elgesiui, apžvalga, be to, apžvelgiamas pirklių gyvenimas Japonijos feodalinės visuomenės laikais ir pirklių kodekso atsiradimas. Aptariama japonų šeimos struktūra ir „ie“ sistemos (šeimos kamieno, namų ūkio vadovybės) vaidmuo formuojant organizacinę struktūrą ir valdant japonų šeimos įmones.

Taikytas Japonijos šeimos įmonių empirinių ir teorinių tyrimų naratyvinis bei kritinis apžvalgos metodas, ypatingą dėmesį skiriant valdymo praktikai ir ilgaamžiškumui.

Straipsnis baigiamas išvadomis ir pasiūlymais dėl būsimų tyrimų, siekiant geriau paaiškinti Japonijos šeimos įmonių valdymo praktiką bei ilgaamžiškumo fenomeną. Be to, siūloma tyrimų kryptis, kaip geriau suprasti Japonijos šeimos įmonių institucinę logiką ir elgesį.

PAGRINDINIAI ŽODŽIAI: *ilgaamžiškumas, japonų šeimos organizacijos, prekybininkų kodeksai, „ie“ sistema, institucinė logika.*

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