

The Embedded Corporation: Corporate Governance and Employment Relations in Japan and the United States. *By Sanford M. Jacoby.* Princeton: Princeton University Press, 2005. xi + 216 pp. Figures, table, notes, index. Cloth, \$35.00. ISBN: 0-691-11999-6.

Reviewed by Takeo Hoshi

Can the varieties of capitalism survive globalization? One argument holds that because globalization forces the advanced economies to react to the same shocks, their institutions will eventually look the same. They will converge, and the varieties of capitalism will cease to exist. According to a different argument, the evolution of institutions is influenced mostly by history and therefore exhibits path dependency. Following that line of thought leads to the conclusion that the varieties of capitalism will persist.

The Embedded Corporation, by Sanford M. Jacoby, directs this question of persistence of the varieties of capitalism to the institution of corporate governance, especially the aspect of human-resources management, in Japan and the United States. He asks whether the differences between the approaches of Japanese and U.S. corporations to human resources are disappearing. In searching for answers to this question, Jacoby analyzes the role of human-resource (HR) departments in major Japanese and U.S. companies.

He begins with the historical background. Unlike HR departments in many major U.S. corporations, such departments in Japanese corporations have been very influential. Jacoby analyzes four factors that have contributed to this outcome in Japan: a reliance on an internal labor market; a centralized organizational structure; enterprise-based unions; and a corporate governance structure that is oriented toward all stakeholders. Many Japanese companies practice a “lifetime” employment system, whereby a typical worker is trained and promoted within the same company for all of his or her working life. HR departments have been important for the smooth functioning of these internal labor markets. Japanese corporations are also more cohesive than many large U.S. corporations, which became increasingly decentralized during the twentieth century. Thus, in Japan, HR departments play an important role in identifying and distributing human capital throughout the company. HR departments are also important in dealing

with internal enterprise-based unions. Finally, Japanese managers tend to promote the interests of all stakeholders, not, as is generally the case in U.S. corporations, only those of shareholders. Hence, HR is crucial in keeping management in touch with the interests of stakeholders in the company.

In addition to providing a historical perspective, Jacoby explores the broader economic and social context of the corporate organization. He explains, “The idea that history and society matter—that a rational, economic entity like the corporation is embedded in the particularities of time and place—informs the analyses presented in this book” (p. x). He applies this idea especially well in his analysis of the evolution of HR management in U.S. corporations, where he points out how the shocks from outside drove the evolution of the HR function in American corporations. For example, Jacoby argues that, by the 1950s, U.S. society was viewing a “good” employer as “one who treated employees as members of the enterprise and provided them with economic security and fair treatment” (p. 85). He also cites a study prepared in the 1950s, which reported that many corporate managers in the United States claimed that “stockholders have no special priority; they are entitled to a fair return on their investment, but profits above a ‘fair’ level are an economic sin” (p. 85). Reflecting this viewpoint, HR departments in many U.S. companies gained influence during the 1950s and 1960s, but as this philosophy was replaced by the concept of shareholder dominance in the 1980s, HR departments lost their earlier standing.

In analyzing the evolution of the Japanese system of HR management, Jacoby does not emphasize the “embedded” nature of corporate organization very clearly. I would like to have seen more discussion of the influence on Japanese HR management of other changing aspects of the economic and social system of the Japanese corporations, such as finance, production, and procurement, that have influenced the HR management system. Japanese corporations transformed how they handled their financing, their relations with their suppliers, and their production arrangements during the 1980s, and these changes were closely related to new developments in HR management.

The book introduces a useful framework, accompanied by a graphic representation (Figure 1.1, p. 12), to describe institutional convergence and divergence clearly. Because the author explicitly acknowledges the heterogeneous nature of

corporate organizations within a country, each country shown on the graph appears not as a single point on the line that represents possible varieties of institutions, but, rather, as a distribution over a range. There is a substantial overlap between two distributions, implying that some Japanese companies are exactly like U.S. companies. The means of the two distributions, however, are different, implying the existence of national difference.

The framework clarifies the necessity of paying attention to the heterogeneity that exists within a country at any one time, a point that is often ignored in simple discussions of convergence. To understand the dynamics of institutions, it is important to examine the changes in both the mean of the distribution and the variation of the distribution.

By applying this framework to observations from case studies of Japanese and U.S. companies and to the original survey responses from 229 Japanese and 145 U.S. major firms, Jacoby concludes that there is evidence of convergence in HR management, as the distributions for both countries have been shifting toward market-oriented practices. At the same time, however, Jacoby claims that the distance between the locations of the two distributions is widening, suggesting that national differences have persisted. He concludes that the varieties of capitalism are still alive.

The proposed framework, however, has some shortcomings. For example, the unit of measurement is not clear. How does one measure the differences between two systems of HR management? How can one tell that the differences between the Japanese and the U.S. corporations are becoming more pronounced, as he claims? Moreover, how can one map an HR management system, with its many attributes, to a one-dimensional space? The implication of the results from the case studies and the comparative survey is not as clear as the author claims. What the case studies of major corporations in the two countries reveal is that considerable heterogeneity exists within each country, a reality that Jacoby recognizes but that he could emphasize more. In Japan, the shift in many companies seems to be in the direction of the market-oriented system, rather than toward an organization-based system, but it is difficult to tell whether the gap between Japan and the U.S. is widening.

An additional difficulty in drawing clear-cut conclusions about convergence is that the changes are not complete. Making a judgment while conditions are in flux is

hard: it is easy to confuse what will turn out to be a temporary blip with a permanent change. For example, as soon as the author wrote, “Important as foreign investors were in the 1990s,...their influence now is waning” (p. 167), foreign investors resumed buying Japanese shares, and by the end of 2005 had pushed the stock market to a five-year high.

Nonetheless, *The Embedded Corporation* is a source of useful information about the changes that are occurring in the HR management of major Japanese and U.S. corporations, although the full implications of those changes have yet fully to emerge.

Takeo Hoshi is Pacific Economic Cooperation Chair Professor in International Economic Relations at the Graduate School of International Relations and Pacific Studies, University of California, San Diego, and chief editor of the Journal of the Japanese and International Economies. He is currently conducting research on the history of the Tokyo Stock Exchange (with Tetsuji Okazaki and Yasushi Hamao).