Promoting managers from within

As already stated, the top policy-making and executive functions of Japanese firms are relatively indistinguishable when compared with those of other countries, and as a consequence there are few outside directors. On this, we can refer to the previously cited Saito who compared between Japan, The US and UK following from *Tabulations of a Statistical Survey of Board of Directors – a comparative international research paper*, The Council for Economic Policy of the Japan Committee for Economic Development; and also to J. Bacon and J. K. Brown, ‘The Board of Directors: Perspectives and Practices in Nine Countries’, *The Conference Board Report*, No.728. Saito said in Japan:

The average number of directors on the board is twenty-two. Most of these are inside directors and less than 10 per cent are outside. Although the majority of companies had outside directors on the board, they were all of the type where inside directors controlled the company. And of these inside directors, more than 90 per cent had been with the company throughout their careers.

Where the US is concerned, we learn that:

The average number of directors on the board is thirteen with a mixture of inside and outside. Eighty per cent of the boards had a majority of outside directors. So boards controlled by outside directors predominate.
And where Britain is concerned:

The average number of directors on the board is 15 and seventy per cent of executive directors spent their careers at the company. Seventy per cent of the boards consist of a majority of inside directors so most boards are controlled by insiders. Where there are outside directors, they tend to be bankers, company officers, major shareholders and the like.9

There are few instances in Japan of the American example. In Japan, as has been said, most of directors come from inside; outside directors are insignificant compared with those in America. As briefly mentioned before, the system of outside directors was set up to carry out trustee management functions, so it would seem natural not to have outside directors in a country where these functions are not separated from the general management function.

It should be pointed out, however, that there is a difference between inside directors and internally raised directors. The latter is a subset of the former. So, for example, a director that is dispatched to a company from its parent typically does not serve with the parent simultaneously so he is considered an inside director but not an internally raised director. Though dated, *The Toyokeizai Monthly Statistical Report* (November and December 1975) provides data on internally raised directors and inside directors. The report surveys the officers (directors and auditors) of the top 1,681 companies as of 1 July 1975. The results identified 22,235 directors and 3,815 auditors from a total of 26,165. And of that total, 30.9 per cent were brought in from outside the firm either as outside directors or quasi-outside directors, that is inside directors who started their career in other companies. And according to the report, quasi-outside directors come largely from the Ministries of Finance, Trade and Industry, Construction, and Transportation. Large numbers also come from government corporations like national rail or power utilities in a process known as *amakudari*, whereby older members of the bureaucracy serve out the remainder of their career as board members. The next biggest source of quasi-outside directors is from other companies in the family (*keiretsu*) of firms. And of these, most come from the bank around which most *keiretsu* are formed. Most of the intra-*keiretsu* appointees ended their formal role with the old company before starting with the new, but a small minority served on multiple boards. The members of this minority could hold the dual roles because of successful track-records in the parent company. So though