Financialisation in the Context of Cross-shareholding in Japan: The Performative Pursuit of Better Corporate Governance

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Abstract

Recent corporate governance reform oriented towards 'shareholder primacy' can be considered part of global financialisation. Thus, cross-shareholding in Japan is examined to demonstrate how global financialisation has been extended to a corner of global corporate activities. Despite some fluctuations, Japanese companies have gradually reduced their cross-shareholdings over the past few decades. This study considers the factors that have encouraged Japanese companies to reduce the volume of traditional cross-shareholdings. Based on a careful investigation, this study argues that applying a perspective of performativity is useful in understanding recent corporate actions meant to facilitate 'better corporate governance'. This perspective holds that the pursuit of better corporate governance, or the establishment of a corporate governance code with disclosure requirements, has been performative to reduce the volume of cross-shareholdings in Japan as part of global financialisation.

This study had the following aims: First, based on a review of the literature on financialisation, it is argued that the progress of financialisation is indicated by the dissolution of corporate cross-shareholding relationships. Second, a performativity perspective is constructed as the theoretical lens and applied to the Japanese situation to demonstrate how several institutional devices have been crucial in reducing the volume of corporate cross-shareholdings. Third, based on an in-depth case analysis, this study highlights that the relatively recent dissolution of cross-shareholdings has been caused by performative corporate governance reforms requiring detailed corporate disclosure of the related practices. This case study in a non-Western country reveals that global financialisation has been achieved through performative corporate governance reform.

Keywords: Financialisation
Cross-shareholding
Corporate governance code
Corporate governance in Japan
Performativity

1. Introduction

After the collapse of Lehman Brothers and the subsequent global financial crisis, many countries, corporations, and individuals suffered from sluggish economic recovery, and excessive financialisation of the economy and society is often viewed as the prime factor. Since then, the number of studies on financialisation from various perspectives has grown rapidly.[1] Nevertheless, a variety of viewpoints on the elusive concept of financialisation exist and its meaning remains indefinite. Therefore, it is valuable to conduct an ongoing investigation of the concept from new vantage points.

Through a review of the available literature, the present study identifies the movement towards a homogenous global financial market as a key aspect of financialisation. From this standpoint, this study focuses on cross-shareholding practices in Japan. The process of global financialisation has gained pace in Japan, and the recent reduction in corporate cross-held shares has been achieved under the banner of corporate governance reform. As an institutional tool, corporations are required to disclose their intent to engage in cross-shareholding. This reform was expected to accelerate the dissolution of cross-shareholding relationships, which seem to be heterogeneous from the viewpoint of globally accepted corporate governance practices. By introducing the concept of performativity, this descriptive study interprets a series of regulations and subsequent changes to corporate behaviours as the generic performance of global financialisation. It further analyses the reduction of cross-held shares from the perspective of self-fulfilling performativity.

Overall, this study is based on a case analysis of financialisation and corporate governance reform in Japan. In the present study, the focus on Japan is notable because, as Van der Zwan (2014) acknowledged, previous financialisation studies contain geographical biases and have focused predominantly on the situations in North America and Western Europe. The present study is structured as follows. The next section reviews the literature on financialisation and presents the various definitions of the term. Among these definitions, the global pursuit of a homogenous financial

[1] For instance, the work of Mader et al. (2020) is a large volume encompassing a wide range of studies on financialisation.

market is highlighted. In Sections Three and Four, the relationship between financialisation and institutional dynamics is considered from a performative perspective, and the theoretical viewpoint of this study is constructed. In Section Five, a case study in Japan indicates that mandatory disclosure of a corporation's cross-shareholding intent with the aim of ensuring better corporate governance has worked performatively to put pressure on Japanese corporations to further reduce their cross-shareholdings. Section Six includes a comprehensive analysis of the global convergence of corporate governance practices. Finally, in Section Seven, the conclusion is summarised, and it is followed by a discussion of future research opportunities.

2. Characteristics of Financialisation

What is financialisation? Epstein (2005, p. 3) broadly summarises financialisation as 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies.' According to Van der Zwan (2014), 'financialization refers to the web of interrelated processes—economic, political, social, technological, cultural etc.—through which finance has extended its influence beyond the marketplace and into other realms of social life.' Haiven (2014, p. 38) argues that an important aspect of financialisation is cultural, and it is expressed as the expansion and creeping of financial ideas, metaphors, processes, and structures into everyday life and social institutions. Although these analyses are insightful, they are too broad and abstract for use when analysing a specific phenomenon.

Other studies have introduced a slightly more limited scope to define the concept. For example, in terms of 'accumulation' in the economy, Krippner (2005, p. 181) defines financialisation as 'a pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production'. Gunnoe and Gellert (2011) also argue that financialisation is both a 'macroeconomic structural phenomenon and a socio-political process that requires reconfiguration of social and economic institutions that support accumulation' (Gunnoe & Gellert, 2011, p. 270). Financialisation is further defined in relation to the widely known political concept of neoliberalism: 'Neoliberalism meant, in short, the financialization of everything and the relocation of the power centre of capital accumulation to owners and their financial institutions at the expense of other fractions of capital' (Harvey, 2006, p. 24). This leads to a situation in which 'financial interests (the power of the accountants rather than the engineers) gained the upper hand within the ruling classes and the ruling elites' (Harvey, 2006, p. 24). These varying perspectives indicate that various authors have interpreted financialisation differently. The situation is expressed as 'a danger that financialization will become a chaotic concept, a blanket term which is stretched too far to cover a range of related, but fundamentally different, projects' (French et al., 2011, p. 801).

To deal with this situation, the present study limits its focus to specific corporate behaviours in the financial market. Namely, it regards financialisation as the shift of corporate behaviours with the aim of seeking financial returns in financial markets. As Preda (2009, p. 5) states, 'Financialization is another name for the growing role played by investment activities as an autonomous profit centre in the corporate structure.'[2] Lucarrelli (2012) also argues that financialisation is characterised by a transformation of future income streams into marketable securities, which represents a 'profound shift away from direct investment in productive capacity, towards the open financial markets in which profitability can be temporarily boosted through speculative operations in the stock markets' (Zhang & Andrew, 2014, p. 19).

Moreover, one of the most conspicuous characteristics of financialisation is its global nature. It would be difficult to understand the processes of financialisation without properly considering the networks of international finance in which corporate profit-seeking activities take place. Regarding this point, French et al. (2011, p. 810) suggest recognising a more holistic integration of international and domestic financial systems as well as paying close attention to the local context. Although financial markets around the world have essentially become borderless, it is still important to

[2] He states that, although financialisation was affected by the corporate revolution that drove the growing emphasis placed on shareholder value and market performance, it was backed by the rhetoric of market omniscience and infallibility (Preda, 2009, p. 5).

consider geographical differences, since each country maintains its own local financial regulations and practices. Davis and Kim (2015) also pointed out that financialisation takes on different characteristics based on local circumstances. Therefore, it is useful to analyse Japan, a non-Western country, as a site of global financialisation. The significance of extending the research agenda on financialisation to an Asian context is also highlighted by Jackson (2016, p. 5).

3. A Performative Perspective on Financialisation

The above analysis reveals that financialisation is a global phenomenon and that placing a focus on the local context is likely to be fruitful. This section elaborates on the perspective of performative financialisation to consider the relationship between the global and local contexts.

Decades ago, John L. Austin analysed the concept of performativity in the field of the philosophy of language (Austin, 1975). According to his analysis, the concept of performative utterance implies that when one articulates words (e.g., discourses or theories), one is doing rather than reporting something (Austin, 1975, p. 13).[3] This statement emphasises the self-fulfilling aspect of linguistic expressions. Amplifying this aspect, it becomes possible to explain how a specific theory, concept, practice, or assumption in a specific field can shape institutions and change individual or organisational behaviours. As Guala (2016, p. 37) argues, performative speech creates things (institutions, promises, etc.) by manipulating beliefs, particularly the systems of mutual belief that are crucial for coordination and cooperation in complex societies.

The concept of performativity has been in the spotlight in the social sciences ever since Donald MacKenzie's seminal work on the behaviours of option traders in financial markets was published. According to MacKenzie et al. (2007, p. 6), it is important to keep in mind the multiple ways in which economics may perform. MacKenzie (2006)

[3] Austin identified two types of utterances: constative and performative. Constative utterances are descriptive statements, whereas performative utterances (1) do not describe, report, or state anything and cannot be true or false and (2) are, or are a part of, the performance of an action that would not normally be described as saying something or as 'just' saying something (Austin, 1975, p. 5).

classified performativity into four types in the context of economics. First and foremost, the most comprehensive type of performativity is the generic one, which refers to an aspect of economics (a theory, model, concept, procedure, dataset, etc.) used by participants, regulators, and the like in economic processes. Within the framework of generic performativity, effective performativity exists, which refers to the more practical use of an aspect of economics that is considered to affect economic processes. Based on this classification, the comprehensive term 'financialisation' is performative in the generic sense. More specifically, effective performativity consists of two aspects: self-fulfilling performativity [4] and counterperformativity. The former indicates the practical use of an aspect of economics that makes economic processes resemble their depictions by economists to a greater extent, while the latter is used to refer to an aspect of economics that makes economic processes resemble their depictions to a lesser extent. A typical example of the former is the use of the theoretical valuation model for option valuations in MacKenzie's (2006) detailed analysis.

In this study, the focus is similarly centred on both the generic and self-fulfilling types of performativity. Generic performativity is represented as comprehensive global financialisation[5] and the latter is analysed through the lens of corporate governance reform. This study specifically investigates how the use of a particular concept of (better) corporate governance performatively shapes corporate behaviours in the financial market.

4. Performativity and Institutions

The above-mentioned performativity theory implies that explicit linguistic

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[4] MacKenzie referred to the self-validating feedback loop in social life introduced by sociologist Barry Burns (MacKenzie, 2006, p. 19) and described it as 'Burnesian performativity', but he also referred to it as 'Mertonian performativity' by drawing on the work of Robert K. Merton (MacKenzie, 2006, p. 306). This paper calls it self-fulfilling performativity, referring to Merton's well-known 'self-fulfilling prophecy'.

[5] Generally, the nominalised word 'financialisation' is now considered a widely accepted social phenomenon and can be performative. Given the increasing number of related studies, the concept of financialisation is expected to reflect normative performativity to some extent (Okamoto, 2020). In the performative context or mode, the more people think, talk, or write about financialisation, the more society implicitly leans towards a more financialised mode.

expressions (e.g., discourses or theories) are crucial for mobilising individual and organisational behaviours. However, among the various discourses and theories, only some can be collectively accepted and considered performative (either in a generic or self-fulfilling way). In the background, generic performativity tends to be pervasive and connects with many of the symbols, institutions, and behaviours of individuals and organisations. The identification tends to be *ad hoc*, and researchers and analysts often play a role in it. The identification of macro-financialisation is a typical example. In contrast, self-fulfilling performativity is identified in a more specific and limited context.

Given this background, it is useful to consider institutional and behavioural changes from the two perspectives of performativity. In addition to formal regulatory measures such as laws and accounting standards, concepts and their classifications, which are typically explained in major textbooks, also contribute to the performance of a specific theory or discourse. According to Callon et al. (2007, p. 2), these rules and concepts are interpreted as institutional devices; that is, they constitute the material and discursive assemblages that intervene in the construction of better financial markets. In a regulated market, such as the stock market, corporate behaviour is influenced by both formal and informal institutional devices.

Previous studies on financialisation have highlighted the relationship between institutional devices and financialisation. For example, Collison et al. (2014) examined changes in company laws in the UK in the context of financialisation. They regard formal company laws as a set of material institutions that reflect collective and social intentionality in the context of financialisation. Based on interviews with those involved in the company law review process, they place an emphasis on directors' responsibility for maximising shareholder value as an aspect of financialisation. Zhang and Andrew (2014) explored the connection between accounting regulations and financialisation by discussing some of the key changes to the Conceptual Framework project being developed jointly by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). They argue that the movement towards neoliberalism and the financialisation of the global economy has been eased and legitimised in part by the adoption of global accounting regulations through the development of the conceptual framework for accounting. This involved narrowly defining the concept of users in financial reporting, which represents a shift in the purpose of financial reporting and reflects an emphasis on faithful representation instead of reliability, which highlights the use of investors/shareholders' accounting information to make investment decisions (Zhang & Andrew, 2014, p. 20).

These studies have approached financialisation by focusing on specific institutional devices. Corporate laws and accounting standards (including the conceptual framework) are both explicit and formal institutional devices. Moreover, the principle of shareholder value maximisation and the supremacy of shareholder value can be considered informal and conceptual institutional devices. The case study in the next section demonstrates how various institutional devices have been mobilised to perform financialisation in the Japanese context.

5. A Case Study of Corporate Cross-shareholding in Japan

5.1 Financialisation in Japan

The phenomenon of financialisation in Japan has been analysed from various perspectives. For instance, as Aoki (1994) pointed out, although the Japanese main bank system was an effective monitoring device during the growth period,[6] the monitoring mechanism did not function effectively in the globalised securities-based Anglo-American financial market. This decline in the main bank system in Japan is viewed as an aspect of long-term financialisation in Japan.

In the more recent past, Japanese financialisation has been analysed in terms of the growing financial power of financial institutions[7] (Ogura, 2016), hedge fund

[6] Regarding the development of the main bank system in Japan, Hoshi (1995) is insightful.

[7] Ogura (2016) argues that the diffusion and penetration of financialisation in Japan was, to some extent, led by Japanese megabanks (and others), which utilized political power in the policy-making arena to enact rules that could have a positive impact on the profitability of financial institutions.

activism[8] (Buchanan et al., 2018), and an increasing number of foreign investors[9] (Ahmadjian, 2007). These studies have illuminated the changes in Japanese corporate practices during the wave of global financialisation and the pressure of the global convergence of such practices.

A similar attempt can be seen in the context of cross-shareholding practices in Japan. Miyajima and Kuroki (2007) comprehensively analysed Japanese cross-shareholding practices and concluded that, after the 1997 banking crisis in Japan, banks sold shares of firms with large growth opportunities (large Tobin's q) and held shares of firms with which they had a main-bank relationship. They also predicted that cross-shareholding among firms would not be dissolved on a large scale, as corporate ownership of shares has its own economic rationale, and they stated that there was no indication that it had played a negative role in corporate governance (although corporate block holding has, in fact, played a positive role) (Miyajima & Kuroki, 2007, p. 118).

The present study contributes to their analyses by focusing on analysing cross-shareholding practices. According to Ahmadjian (2012, p. 131), the convergence of corporate governance was more visible in the area of financial reporting and disclosure and far less so in terms of the structure and function of the corporate board of directors over the past few decades. Taking this into account, the present case study considers one aspect of financialisation—the decline of corporate cross-shareholdings in Japan from the perspective of financial reporting and disclosure.

5.2 Overview of Corporate Cross-shareholding in Japan

Corporate cross-shareholding is generally defined as a situation in which two

[8] Buchanan et al. (2012, p. 320) state that American-style shareholder activism was not as prominent as expected in Japan because Japanese community companies are oriented internally towards the organisational structure of the enterprise and externally towards competitive success in product markets as opposed to the achievement of financial benchmarks, which are often set by Western capital markets.
[9] According to Ahmadjian (2007), the changes that took place in the boards of directors in Japanese corporations were due to foreign investment, to some extent. Such changes are also associated with a shift towards Anglo-American governance practices in Japan.

publicly traded companies hold shares in each other.[10] It has been said that cross-shareholding has both advantages and disadvantages. On the one hand, corporate cross-shareholding can strengthen relationships between firms. Compared to typical companies in other countries (e.g., Western counterparts), Japanese corporations tend to place greater emphasis on corporate relationships. After World War II, the group of 'Keiretsu'[11] conglomerates formed a dominant partnership network, and it remains part of traditional Japanese business practices. According to Genay (1991, p. 27), such industrial groups were important to the development of Japan's blossoming industries during the period when the Japanese economy was highly regulated and isolated from international markets. According to Kagono and Yamada (2016), long-term corporate relationships, such as those underpinning the 'Keiretsu' system, could produce relational trust and contribute to reducing transaction costs (e.g., costs of monitoring partner firms).

Although such relational industrial groups were not unique to Japan (France, Germany, Korea, and Spain had similar industrial groups), the features of the Japanese main banking system were unique (Genay, 1991, p. 20). In Japan, the complex relationships among firms within relational industrial groups were characterised by cross-shareholdings. Historically, these groups of firms typically had close ties with a specific main bank that provided most of a firm's debt financing (Genay, 1991, p. 20). In other words, the main banks were key players in Japanese corporate cross-shareholdings at the time, and the practice was intended to strengthen firms' relationships and preclude hostile takeovers. However, there were some disadvantages to maintain corporate cross-shareholdings. The practice tends to exclude other

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[10] The Nihon Keizai Shimbun (Nikkei) defined cross-shareholding as the practice of publicly traded financial institutions and non-financial companies strategically seeking ownership of each other's shares (Ogishima & Kobayashi, 2003, p. 3). However, this definition is too circumscribed, as the case of a publicly traded corporation unilaterally owning stock in another publicly traded company for strategic purposes could be similarly regarded as cross-shareholding.

[11] A 'Keiretsu' is a traditional Japanese conglomeration of businesses linked by cross-shareholding to form a stable corporate structure. It was traditionally based on long-term transactional relationships among the constituents, such as ones between assemblers and suppliers.

individual or minority shareholders because firms in a cross-shareholding relationship are unlikely to exercise their voting rights effectively. Rather, cross-shareholding fosters management entrenchment as a result of unused voting rights.

This type of cross-shareholding practice is uncommon in Anglo-American companies, as it would mean that management lacked the ability to effectively utilise the invested capital of shareholders. To grasp the various stances on cross-shareholdings in various countries, it is useful to compare the rate of floating stock in the financial market by dividing tradable public stocks by market capitalisation. According to Kanda (2001, p. 134), almost 20 years ago, the rate was 94% in the US and 92% in the UK; conversely, it was 65% in Japan, whose financial market was the largest among the non-Western countries at the time.[12]

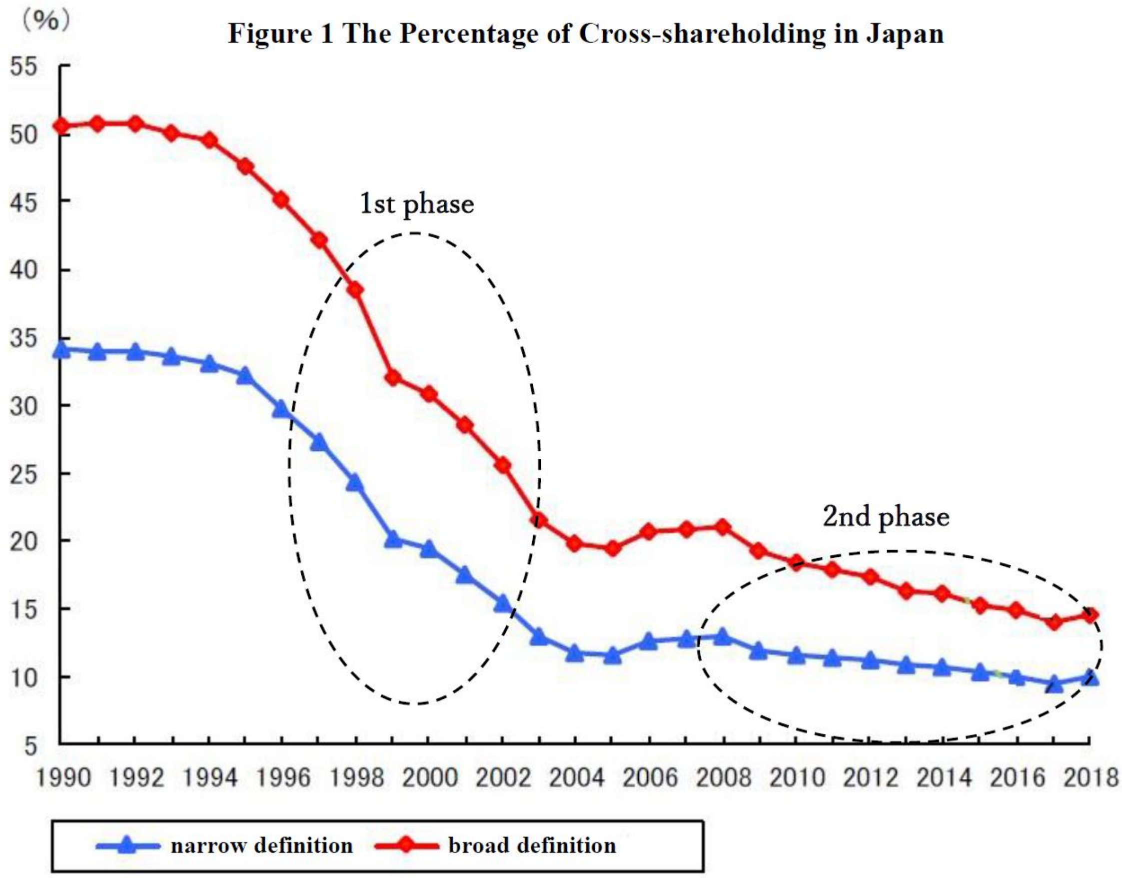
5.3 Criticism and Reduction of Corporate Cross-shareholding

In Japan, to maintain a close relationship with partner companies and banks, it was common for pairs of firms to exchange equity shares. Those firms occasionally shared the same industrial group, suppliers, customers, creditors, and borrowers (Scher, 2001). This type of arrangement has been described as 'quiescent stable shareholding, which may be held in trilateral, multilateral, or otherwise stable arrangements among companies, usually based on group and/or transactional relationships' (Scher, 2001, p. 1).

However, such unique corporate practices became the target of criticism, as the return on such practices was not obvious. As shown in Figure 1, the volume of cross-shareholdings in Japan has declined since the mid-1990s. As highlighted in Figure 1, this study divides the long-term decline in cross-shareholding in Japan into two phases. The reduction during the first phase was mainly caused by the sale of cross-held shares by Japanese banks after the bubble burst from the late 1990s to the early 2000s. Around that time, cross-shareholding was mainly carried out by the main banks and corporations (the banks' main partners) that had close ties with them (see Subsections

[12] In France and Germany, where code-law financial regulations had dominated the market for a long time, the rates were 65% and 64%, respectively (Kanda, 2001, p. 134).

5.4 and 5.5 for further explanation). The second phase began after the 2008 financial crisis and was ongoing. In the second phase, as analysed in Subsections 5.6 and 5.7, corporate governance reform has been cited as one of the main reasons for reducing cross-held shares.



The graph is based on the data in Nishiyama (2019). It is calculated by dividing the market value of public companies' cross-held shares of other public companies by the total market value of stock market. The broad definition includes the sample of insurance firms.

5.4 The First Phase of the Reduction of Cross-shareholdings in Japan: The Decline of the Main Bank System

The first phase covers the period from the late 1990s to the early 2000s. As mentioned above, the key actors in the widespread cross-shareholding phenomenon in Japan during that time were banks. Japanese 'Keiretsu' and the main bank system were considered not only the keys to Japan's post-war recovery but also superior forms of industrial and financial organization (Scher, 2001). Beginning in the 1970s, much of the bank-firm cross-shareholding in Japan took place between groups of interrelated firms and large commercial banks. For instance, in 1987, or when the bubble economy emerged, cross-shareholdings represented 15.2% of the outstanding corporate stocks issued in Japan by nonfinancial companies and 22.7% when financial institutions were included, and cross- and stable shareholdings comprised 65% to 70% of all the stock issued by publicly traded corporations in Japan. The remaining minority of shares were freely traded on stock exchanges (Scher, 1997, p. 62).

The large volume of cross-shareholding done by banks was justified for several reasons. From a historical perspective, cross-shareholding arrangements in the post-war era operated as tacit mutual agreements designed to insulate management from any market-based threat of a hostile takeover (Scher, 2001, p. 62). Consequently, interrelated firms and banks often did not exercise their shareholder (or voting) rights to improve the management of partner firms. Therefore, stable shareholding relationships functioned as a corporate management strategy to limit shareholder governance of the firm (Scher, 2001, p. 2), and it worked well while the Japanese economy continued to grow steadily.

However, as the circumstances changed, the tide turned. When the bubble economy burst, the Japanese Economic Planning Agency (JEPA) expressed a sceptical view of Japanese cross-shareholding practices. In its 1992 annual economic report, the JEPA acknowledged the positive effects of the practice, stating that 'transferring the residual claim right to the management side (cross-shareholding) can contribute to the long-term stability of the management by eliminating the threat of hostile takeovers and releasing the management from excessive pressure from the capital market' (JEPA, 1992, 3.1.3). The JEPA further stated that 'the stocks held by each other also have the characteristics of "hostage" and "collateral" and exchanging the "hostage" is a potential deterrent to betraying the relationship of trust. By promoting long-term inter-relational transactions, mutual information sharing among those firms will encourage progress and produce synergistic effects' (JEPA, 1992, 3.1.3). At the same time, the JEPA acknowledged the side effects of cross-shareholdings: 'Even if cross-shareholdings have the above-mentioned functions, inefficient transactions may occur if they create a "collusive" relationship. More importantly, when a company selects a business partner, the presence or absence of cross-shareholdings is taken into consideration regardless of individual goods or services, or when a cartel-like relationship arises between competitors because of that, there is a significant risk of competitive restriction' (JEPA, 1992, 3.1.3). Since then, Japanese regulatory agencies have recognised that corporate cross-shareholding can be a cause of inefficient corporate management.

5.5 The First Phase of the Reduction of Cross-shareholding in Japan: Accounting Regulations as an Institutional Device

According to Okabe (2002), in the late 1990s, the practice of cross-shareholding gradually lost its advantages, and some disadvantages began to be recognised. The main reason for this shift was the unprofitability of the practice. For both banks and corporations, the direct rate of return generated by cross-held shares declined or became negative during an unprecedented recession in the 1990s (Okabe, 2002, p. 31). The stocks held in the portfolios of financial institutions (such as banks) and corporations became so-called 'non-performing assets' during the long recession. Consequently, these assets were sold on a performance basis to reallocate funds more efficiently (Okabe, 2002, p. 32). Moreover, from the banks' perspective, the increase in the risk sensitivity of shareholdings was conspicuous. The decline in the value of portfolio stocks due to falling stock prices meant erosion of the banks' capital base, which increased anxiety about being unable to meet the international capital adequacy standard (Basel Accord) (Okabe, 2002, p. 32).

Thus, reducing the volume of corporate cross-shareholding was the political target of Japanese economic policy at the time. It was indeed one of the political reforms implemented after the bubble burst in Japan. In particular, the removal of three factors potentially hindering the efficiency of the financial market proved to be of special significance. They were cross-shareholding, the main bank system, and the Ministry of Finance-led Convoy System of Financial Administration, all of which were characteristics or peculiarities of the Japanese economy (Okazaki, 2014, p. 104). In addition, the Capital Markets Research Institute established a research committee that held eight meetings in 1999 and completed a research report (Kanda, 2001).

According to a research report prepared by the committee, in the context of cross-held shares, the introduction of market value-based accounting standards for cross-held shares in Japan had an enormous impact on the sale of cross-held shares by banks and businesses (Kanda, 2001, p. 192). Regarding formal accounting standards, the tremendous accounting reform in the late 1990s signalled a turning point. New accounting standards were adopted during what is called the 'accounting big bang' in Japan, and one of the reforms hastened the sale of shares in corporations' portfolios (Okabe, 2002, p. 33). In short, the revaluation of financial assets (securities, financial derivatives, and so on) was introduced, and the practice of historical cost valuation was replaced by market-based valuation (Okabe, 2002, p. 33). The new valuation method requires corporations to classify securities according to the purpose of their holdings. Cross-held shares are not classified as tradable, nor are they held to maturity. Rather, they are regarded as 'other' available-for-sale securities. Other securities are required to be marked at market value, and capital gains or losses must be put in the section of shareholders' equity on a corporate balance sheet.

Regarding the introduction of the new accounting rule, the Japan Association of Corporate Executives (Keizai Doyukai) estimated in April 1999 that if all the securities held by the 1,200 corporations listed in the first section of the Tokyo stock exchange (excluding financial institutions) were deemed 'other securities' and marked at market value, the ROE of the corporations would decrease by about 0.32%, from 2.96 to 2.64 (Okabe, 2002, p. 34). Therefore, for financial institutions and business firms, it made sense to sell cross-held shares and allocate the proceeds to other investments or to pay off debt (Okabe, 2002, p. 34).

Based on this analysis, it can be concluded that the rapid decline in the volume of cross-held shares in the first phase (the late 1990s to the early 2000s) was triggered by market-based accounting valuation. Regarding the accounting standards for available-for-sale securities, the aim of the standard was to reflect market values on corporate balance sheets to provide more timely financial information about financial assets. It is notable that, in the first phase of the reduction of cross-held shares in Japan, institutional devices such as accounting standards and profitability metrics (e.g., ROE) contributed to the reduction (sale) of cross-held shares.

5.6 The Second Phase of the Reduction of Cross-shareholding in Japan: The Introduction of Disclosure Requirements

As shown in Figure 1, the second phase in the long-term trend of reducing Japanese cross-shareholdings covers the period from 2008 to 2020. As depicted, after the financial crisis, Japanese companies gradually reduced their cross-shareholdings. A concerted attempt by the government to reform the financial market in Japan led to the reduction.

Beginning in October 2008, the Financial System Council's study group on the internationalisation of Japanese financial and capital markets (chaired by Professor Kazuhito Ikeo from Keio University) held eight sessions on the state of corporate governance in public companies. Based on its deliberations, on 17 June 2009, the study group published a report titled 'Toward Stronger Corporate Governance of Publicly Listed Companies'.[13] Under the banner of 'stronger (or better) corporate governance', some issues that needed to be addressed to improve Japanese corporate governance were raised. Corporate cross-shareholding was specifically mentioned.

> 'Cross shareholdings had been on a decline since the 1990s, but the trend reversed in recent years. A number of issues have been raised regarding this practice, including the resultant hollowing out of capital and voting rights, and reducing the governance function performed by shareholders to a mere formality. Furthermore, cross-shareholdings between listed companies may possibly affect their management, and therefore information concerning such cross-shareholdings [is] important for investors when they make investment decisions' (FSA, 2009, p. 8).

[13] The report is downloadable at https://www.fsa.go.jp/en/news/2009/20090618-1/01.pdf.

Clearly, the study group viewed opaque cross-shareholding practices as problematic. To tackle this issue, it turned its attention to corporate disclosure. The report states that 'some companies have already begun voluntarily disclosing the status of their cross-shareholdings, and it is appropriate to promote this kind of disclosure. Further consideration should be made to institutionalise the disclosure requirement so that it would be possible to obtain information on cross-shareholdings that occur under explicit or implicit agreements to hold shares reciprocally or multilaterally' (FSA, 2009, p. 8).

Following this suggestion, the Financial Services Agency (FSA) amended the Cabinet Office Ordinance on the Disclosure of Corporate Affairs and required listed companies to disclose information related to corporate governance, with the new rules going into effect on 31 March, 2010. Notably, the FSA maintained a neutral position on corporate cross-shareholding. It stated the following:

> 'Some investors take the negative view that such cross-shareholding by companies is not an efficient investment, while others make the point that the cross-shareholding has positive aspects, such as allowing companies to maintain and explore good business relationships, and further contributing to their profitability, which are not necessarily reflected in financial statements' (FSA, 2010, pp. 2-3).

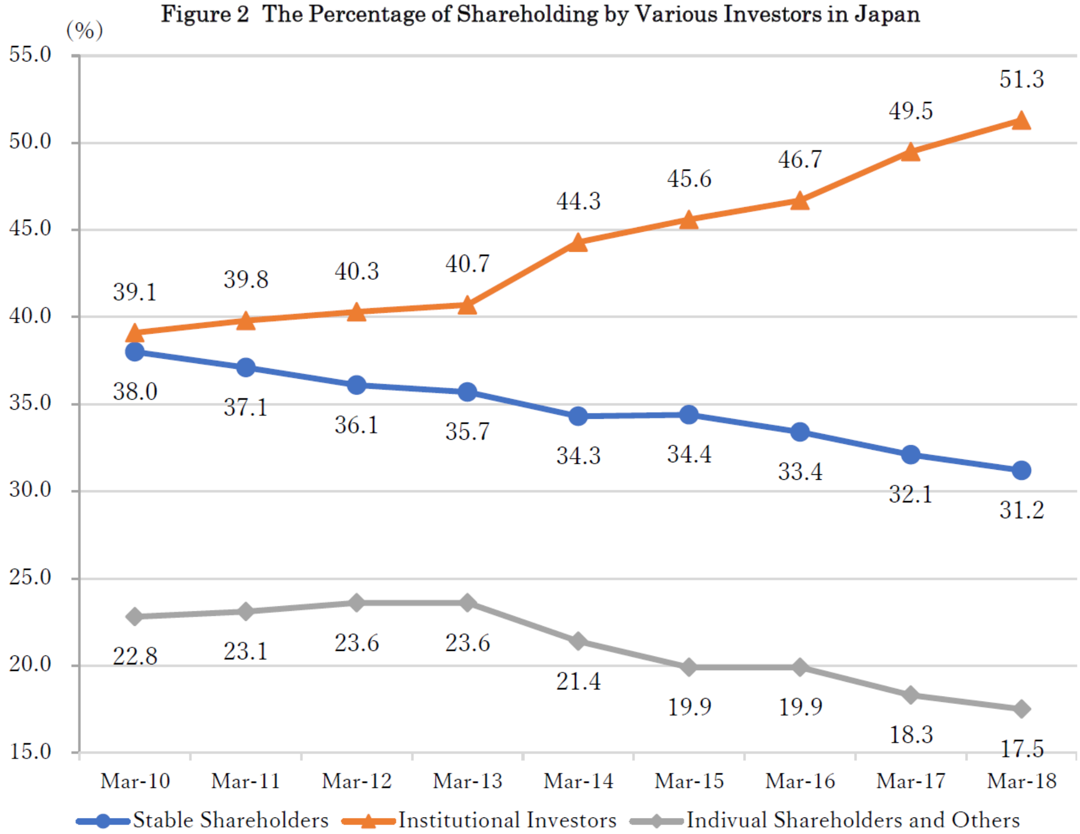
In any case, the amendments required companies to disclose the following information for the shares held primarily for strategic purposes in their securities reports: (i) the number of such issues and their total amount on the latest balance sheet and (ii) detailed information about publicly traded cross-held shares.[14] It was a radical

[14] The detailed information is required for strategically held (not for the purpose of genuine investment) publicly traded shares if the total amount of each issue exceeds 1% of the capital reported on the balance sheet. When it was introduced, the disclosure requirement was necessary for the top 30 largest amounts of those shares. Particularly, the number of shares held, a detailed description of the purpose of holding them, and the amount of the shares on the balance sheet with respect to each issue were required.

shift, as the new rules required companies to disclose not only detailed information about cross-held (or strategically held) shares but also their specific reasons for holding them. Since then, listed Japanese companies have had to carefully consider their reasons for holding cross-held shares.

To review the effects of this disclosure requirement, Figure 2 depicts the trend of shareholding weights by three groups of main shareholders: stable, institutional, and individual (and others) from 2010 to 2018. Stable shareholders include corporations that own cross-held shares. Between 2010 and 2013, when the disclosure requirement took effect, the percentage of stable shareholders decreased slightly by 2.3 percent. As the weight of individual shareholders was stable from 2010 to 2013, it was inferred that the cross-held shares that were sold were largely purchased by institutional investors.

Figure 2 The Percentage of Shareholding by Various Investors in Japan



The original data were obtained from Ueda (2019) and Japan Investor Relations and Investor Support, Inc. The sample firms are Nikkei 225 firms and the data were adjusted with the amount of treasury stocks.

However, the volume of cross-held shares did not decrease drastically in the years immediately following the introduction of the disclosure requirements in 2010, which indicates that the institutional device requiring the corporate disclosure of strategically held shares did not reduce the volume of cross-held shares as intended. Rather, the declining trend gained momentum after 2014, when the Corporate Governance Code was introduced in Japan. In the following subsections, ongoing performative corporate governance reform in Japan is the focus.

5.7 The Second Phase of the Reduction of Cross-shareholding in Japan: Performative Corporate Governance and Further Disclosure Requirements

The introduction of a corporate governance code in Japan was critical to the practice of cross-shareholding (Tsumuraya, 2020, p. 112). Governmental actions were meant to encourage the 'securities exchanges in Japan to take measures to enhance corporate governance' (FSA, 2015, p. 2). Following deliberations by the Headquarters for Japan's Economic Revitalisation, the revised Revitalisation Strategy [15] was approved by the Cabinet in June 2014. As one of its measures, it specified the establishment of a council of experts preparing key elements of the Corporate Governance Code for the Tokyo Stock Exchange.[16]

The approval of the strategy led to the formation of the Council of Experts Concerning the Corporate Governance Code in August 2014, with the Financial Services Agency and the Tokyo Stock Exchange serving as joint secretariats. The

[15] This document is known as the third of the three arrows launched by the Abe administration under Abenomics. The main goal was set for corporate managers and individual citizens to restore their self-confidence, encourage them to believe in their future, and induce them to take specific actions to tackle the challenge of innovation. The full document is available online at https://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/honbunEN.pdf.

[16] Establishing a Japanese version of the Stewardship Code is another means for institutional investors to fulfil their stewardship responsibilities, including promoting the mid- to long-term growth of companies through dialogue. At the same time, the Japan Exchange Group Inc. established the JPX-Nikkei Index 400, a new stock index composed of 'companies with high appeal for investors, which meet the requirement of global investment standards, such as the efficient use of capital and investor-focused management perspectives' (FSA, 2015, p. 2).

Council of Experts has met nine times since August 2014, developing preliminary ideas into a corporate governance code known as the 'Corporate Governance Code (final proposal)'. The strategy also specifies that the formulation of a corporate governance code must be based on the OECD's Principles of Corporate Governance. Therefore, the Council of Experts conducted discussions by considering the OECD's principle, and the content of the code was based on those principles. Furthermore, before finalising the code, the council circulated a draft for comments prepared in both Japanese and English and received suggestions from 80 individuals/entities in Japanese and 41 individuals/entities in English. Taking these suggestions into account, the council reviewed and finalised the code.

In the final issued code, the most relevant principle for this study is '1-4 Cross-Shareholdings'. It requires that when companies hold shares of other listed companies as cross-shareholdings, they must disclose their policies on doing so. In addition, the board should examine the mid- to long-term economic rationale and prospects of major cross-shareholdings on an annual basis while taking into consideration both the associated risks and returns. The annual examination should provide a detailed explanation of the purpose and rationale behind cross-shareholdings. Therefore, companies must establish and disclose a clear stance on voting rights in relation to their cross-shareholdings. However, this corporate governance code is not a set of strict mandatory rules. Rather, it is designated as a soft law that adopts a principles-based approach. Therefore, if a company does not want to disclose specific information concerning its cross-shareholding practices, it can provide a reasonable explanation for its decision. Yet, regarding the normativity of this code in Japan, Miyamoto (2018, p. 15) mentions that 'Although it was a voluntary code, it was, in effect, compulsory due to the inclusion of the "comply or explain" rule.'

Furthermore, in June 2018, the Corporate Governance Code was revised, and new supplemental principles were added to Section 1.4.1; when cross-shareholders outside of a company indicated their intention to sell their shares, the company was expected not to hinder the sale of the cross-held shares by, for instance, implying a possible reduction in business transactions. Companies were also expected to avoid engaging in transactions with cross-shareholders that could harm the interests of other companies or the common interests of their shareholders by, for instance, conducting transactions without carefully examining the underlying economic rationale. As follow-up guidance, the FSA published 'Strategically-held Shares: Points for Ideal Disclosure for Shareholders' in 2019. It presents some models of real companies' disclosures and explains in detail the goals, rationales, and effects of holding cross-held shares. As a supplement to the revised Corporate Governance Code, this guide implicitly encouraged further dissolution of cross-held shares with no clear benefits or return to the holding company.

Overall, the informal soft law contained in the Corporate Governance Code, combined with the required disclosure regarding the reasons for cross-shareholding practices, was meant to function as a mixed institutional device to reduce the volume of cross-held shares. In that sense, the term 'corporate governance reform' or 'better corporate governance' has been performative in the second phase (since 2008) in Japan. As the OECD's corporate governance code was used as a model for the Japanese corporate governance code, placing a strong emphasis on better corporate governance in Japan can be interpreted as a part of global financialisation.

6. Analysis of the Convergence of Corporate Governance from a Performativity Perspective

Based on the case analysis of the reduction of cross-held shares and related institutional changes in Japan presented above, it can be said that Japan has gradually shifted to pursuing the realisation of a more globally homogenous financial market. In the first phase, or from the late 1990s to the early 2000s, radical reforms in accounting standards and the pursuit of the global comparability of corporate profitability were significant. It could be concluded that the institutional device of accounting standards regarding the classification and valuation of assets assisted the sale of cross-held shares between banks and corporations. During the second phase, particularly after the financial crisis, the movement towards an Anglo-American type of corporate governance was robust. Placing emphasis on better corporate governance was prioritised, which performatively contributed to the dissolution of traditional Japanese cross-shareholding practices.

In the first phase, although there were several factors that could have contributed to the reduction of cross-held shares, the reform of accounting standards was critical. Crucial differences in domestic accounting standards were collectively recognised by interested Japanese parties, and the relevant actors could foresee the clear benefits of reducing such local differences in a set of Japanese accounting standards for global investors. Chiapello (2016) highlighted the performative aspects of global accounting standards from the viewpoint of financialisation and catching up with American (or global) accounting standards (harmonisation) was envisioned in Japan around that time instead of achieving the global convergence or adoption (more comprehensive than the harmonisation) of accounting standards.

In contrast, during the second phase, several regulatory actions supported the achievement of corporate governance reform, and this movement has recently become influential in Japan. The introduction of a corporate governance code exerted pressure on corporations to reduce cross-held shares to achieve better corporate governance. This action has performatively shaped relevant institutions and changed corporate behaviour in Japan. Corporate qualitative disclosures were examined to illustrate this phenomenon. Using the full text search system in the 'eol database' prepared by PRONEXUS (https://www.pronexus.co.jp/english/), a search was conducted for the terms 'strategically-held' and 'cross-held', which are relevant to explaining the purposes of corporate cross-shareholding in the annual securities reports prepared by Japanese listed firms. The data of the firms that used these terms were collected and classified into three periods based on their closing date. Overall, the data show the number of firms that directly mentioned or explained the purpose of holding cross-held shares, thus substantially complying with the revised Corporate Governance Code. The results are summarised in Table 1.

Surprisingly, although there have been more than 3,000 listed firms in the Japanese market from 2010 to 2015, only a few of them directly mentioned either strategically held (holding) or cross-held (holding) shares in their securities reports. In the most recent securities report, the situation changed suddenly and many more firms reported their purposes for holding these shares.[17]

Table 1 The Number of Firms Directly Mentioning Cross-shareholding in Their Disclosures

2010/01~2010/12	2015/01~2015/12	2020/01~2020/12
74	73	1,896

The data imply that large-scale corporate governance reform was successful in altering corporate disclosure practices in Japan. The rapid global convergence of corporate governance has been analysed from the perspective of performativity by Veldman and Wilmott (2020). Their concept of the modern corporation as a social construct is based on the understanding that theory may be used to bring about changes in the world rather than merely explaining or enabling understanding of it (Veldman & Wilmott, 2020, p. 410). Agency theory in textbooks and academic journals has fostered and disseminated theoretical ideas related to agency (Veldman & Wilmott, 2020, p. 416). Such a shift towards agency theory is evident in the formulation and spread of corporate governance codes and the idea of shareholder value maximisation (Veldman & Wilmott, 2020, p. 417). In their concluding remarks, Veldman and Wilmott (2020) argue that the theoretical stabilisation of notions, such as agency theoretic corporate governance through the enactment of national and transnational rules, regulations, policies, and institutions, needs to be analysed in terms of the political economy. This study is in line with their argument and focused mainly on the political

[17] However, it is important to be cautious when acknowledging this result, as it is completely inconsistent with the analysis of Tsumuraya (2020). He investigated the securities reports of the listed firms issued in 2011 and found that more than 90% of the companies admitted that they held shares primarily for strategic purposes. This figure of 90% comes from his own reading of the reports and calculations. According to the regulation enacted in 2010 (mentioned above), although listed companies were required to disclose information about shares held primarily for strategic purposes, many companies typically reported them as 'shares held for purposes other than pure investment', which obscures the purpose of holding the shares and is regarded as passive compliance with the requirement. As Tsumuraya (2020, p. 110) also points out, the corporate disclosures regarding strategically owned shares appeared to be boilerplate responses and did not provide useful information.

aspect of the regulation of cross-held shares during corporate governance reform in Japan.

Although Veldman and Wilmott (2020) state that a cautious approach to 'convergence' must be maintained, as the present study indicates, Japan's recent pursuit of better corporate governance and the reduction of cross-held shares fit well with the thesis of convergence. It should be noted that recent corporate governance reform in Japan has been accomplished without a thorough examination of the costs and benefits of cross-shareholdings. It is uncertain whether Japanese firms should further reduce the number of remaining shares that are cross-held.[18] An interesting case recently arose in Japan involving representative railway companies (East Japan Railway, Central Japan Railway, West Japan Railway, and Kyushu Railway) that had increased the volume of their cross-held shares as of 2020. These holdings covered about 1% of each company's outstanding shares, up from about 0.2%, and JR East, JR Central and JR West each held more than 1% of JR Kyushu. According to Nikkei Asia[19], rail operators said that the moves were meant to promote the sharing of information regarding disaster responses and the development of new technologies in addition to facilitating the implementation of new mobility services combining railway and other transit methods for more efficient transportation. 'Cross-shareholdings are an effective method of fostering trust', JR Kyushu President Toshihiko Aoyagi told Nikkei. The action can be considered a counter-performative response to performative financialisation or the pursuit of better corporate governance.

[18] In 2015, Kazuhiko Toyama, one of the members of the Council of Experts Concerning the Corporate Governance Code, participated in a panel discussion on 'Changing Corporate Governance in Japan', which was organised by the Asia-Pacific Research Center (APARC) at Stanford University. During the discussion, he remarked that 'the quality of most of the activists coming to Japan is very low.' If financialisation, or corporate governance reform, has been driven by these (low-quality) activists, emphasising shareholder primacy is not an ideal scenario for the Japanese people.

[19] The article is available at https://asia.nikkei.com/Business/Transportation/JR-companies-defy-US-investor-by-boosting-cross-shareholdings (accessed 9 February, 2021).

7. Conclusion

This study sought to analyse corporate cross-shareholding practices in Japan from a performative financialisation perspective. The generic performativity of financialisation consists of context-specific self-fulfilling performativity, as demonstrated by performative (better) corporate governance. By examining the long-term decrease in the volume of corporate cross-shareholding in Japan, this study highlights the two phases of the reduction. In the first phase (the late 1990s to the early 2000s), the reform of traditional accounting standards in Japan was highlighted. Through the introduction of the valuation of cross-held shares at market value and the recognition of gains or losses in equity, banks and businesses sold mutually held shares, as they were believed to lead to fluctuations in accounting numbers. Based on this analysis, the first phase of the reduction in cross-held shares is related to the institutional device of accounting standards.

However, in the second phase (the late 2000s to early 2020), specific important actions were taken with the intent of further reducing the volume of cross-held shares. Through these actions, the concept of better corporate governance was essentially performative, and the Corporate Governance Code required corporations to explain the reasons for their cross-shareholding practices. During this process, formal disclosure rules and informal guidance-based institutions were used to achieve better corporate governance. This understanding is in line with the thesis of the performative convergence of corporate governance (Veldman & Wilmott, 2020), and it implies that the global penetration of financialisation has also occurred in Japan through performative corporate governance. Although Veldman and Wilmott (2020) focus on the significance of agency theory in the inherently unstable conceptualisation of modern corporations, Japanese regulators' inclination to encourage better corporate governance seems to be well-entrenched and robust. How and why it has been so strong and stable should be analysed further by considering the politically oriented aspects of the related standard-setting processes.

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