Chapter 2

The Evolution of Trust in Japan: The Case of Vertical Keiretsu Groups

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ABSTRACT

Research on corporate ownership in Japan focus mainly on corporate networks: horizontal and vertical keiretsu. Horizontal keiretsu are networks of firms whose small individual equity stakes in each other collectively sum to control blocks structured around a main bank. Vertical (manufacturing) keiretsu are similar structures that encompass the suppliers and customers of a single large firm. Vertical networks, representative of long-lasting and stable relationships (especially in the Japanese car industry), are undergoing drastic changes. Many authors insist there have been significant changes observed within keiretsu since the end of the 1990s. To have a better understanding of the evolution of trust within keiretsu, it is necessary to analyse its industrial organisation evolution. The authors first situate the Japanese organisational structure and then present a review of the main stages of the change that has affected vertical keiretsu, together with the factors that have contributed to this change. Finally, they analyse the evolution of trust within keiretsu. The authors illustrate the evolution of keiretsu via a case study: the Nissan keiretsu closely related to the Renault-Nissan alliance.

INTRODUCTION

The Japan spectacular growth originated partly in keiretsu. Keiretsu and more specifically ‘vertical keiretsu’ have been widely recognized as an important source of strength in Japanese industries. They contributed largely to boost the Japanese post Second World War growth. They were a key feature of Japan’s economy, affecting directly or indirectly economic transactions within and across industries. They also structured the Japanese industrial system. They can be analyzed as both an organizational phenomenon and a means which has enabled Japanese firms to expand their production capacities, their competitiveness and their exports growth (Aoki, 1988) until the 1990s.

The corporate governance structure is dynamic, developing in response to country-specific factors

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and new market conditions (Kester, 1990). Until the 1990s, the consortium of keiretsu members led to an exclusion of foreign competitors from the Japanese market. But, the automotive industry has undergone major changes over the past years in Japan. More recently in the automobile industry, one of the most exposed to the competitive global market, three major firms had been taken over by foreign concern: Mazda by Ford in 1996, Nissan by Renault in 1999, and Mitsubishi by Daimler-Chrysler in 2000. These operations have had a great impact on keiretsu and more specifically on supplier relationships (Daidj et al., 2008) and corporate governance leading to a reorganization/dissolution of keiretsu.

This study whose aim is to propose a framework to discuss the evolution of trust practices within an international strategic alliance follows previous analysis on keiretsu issue (Daidj, 2009, 2011, 2013a). Several coordination and corporate mechanisms exist: some are formal (contract, authority), others are informal (trust, reputation, reciprocity). Keiretsu values are mainly 'trust and dependence'. We'll analyze the Nissan case to illustrate the implications of changes in subcontracting and purchasing system and consequently in trust. How trust has evolved within the former Nissan keiretsu?

This paper is organized as follows; the first section briefly reviews the relevant literature to clarify the concept of trust as this notion has become an important topic of research in a variety of disciplines, including management, ethics, sociology, psychology, and economics. Trust is a multidimensional and multifaceted concept. We focus our attention on ties between trust, alliances and organizational networks such as keiretsu. The second section investigates the evolution of vertical keiretsu using the case of Nissan and examines the impact of these changes on trust within the Renault-Nissan alliance. The final section concludes.

1. TRUST, ALLIANCES, AND INTER-ORGANIZATIONAL NETWORKS

Scholars in various disciplines (institutional economics, sociology, strategic management, organization studies) have referred to trust in different ways. But, “trust remains an under-theorized, under-researched, and, therefore, poorly understood phenomenon” (Child, 2001, p. 274). In this part, we propose a general formulation of trust to facilitate the study the evolution of trust within inter-firms groups such as Japanese keiretsu in part 2.

1.1 The Determinants of Trust

1.1.1 Trust: A Polysemantic Concept

Bigley and Pearce (1998) consider that concepts of trust depend on the research problem. The notion of trust is very broad, it encompasses many meanings. In fact, it is a polysemantic concept presenting an ambiguous theoretical status (Ingham & Mothe, 2003). The general definitions emphasize the key role of trust: it an “important lubricant of social systems” (Arrow, 1974, p. 23). Trust is closely related to transactions: “there is an element of trust in every transaction” (Arrow, 1973, p. 24) and trust results from belief formulations in repeated transactions (Breton & Wintrobe, 1984).

Common thoughts stand out from definitions relationships between trust and several concepts: cooperation, confidence, control, risk, vulnerability and predictability. The interrelationships of these factors lead to a confusion in the definition of trust (Table 1). For example, as it explained by Mayer et al., (1995), the association is ambiguous regarding trust and predictability. Following Deutsch (1958), they consider the fact that “to be meaningful, trust must go beyond predictability (1995, p. 714). Another illustration