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...
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 frame-
work 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 subcon-
tracting 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 be-
come 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 defini-
tions relationships between trust and several
concepts: cooperation, confidence, control, risk,
vulnerability and predictability. The interrela-
tionships 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