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The Impact of Family Control on the Performance and Financial Characteristics of Family Versus Nonfamily Businesses in Japan: A Matched-Pair Investigation

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Research on family businesses has undergone rapid development in the past two decades. Broadly speaking, such companies perform better than nonfamily businesses, as recent investigations in Japan support. To obtain a more precise result, this research has applied to the Japanese context a research methodology that has proven its worth in Western cases. On the basis of data covering the years 1998 and 2003, we found better performance among family businesses in Japan.

Academic research explicitly recognizes the prevalence and better performance of family businesses (FBs) around the world (e.g., Allouche & Amann, 2000; Astrachan & Shanker, 2003; Heck & Stafford, 2001; Sharma, 2004) yet rarely addresses the case of Japan in this context (Kurashina, 2003; Morikawa, 1996; Okocho & Yasuoka, 1984). Prior studies clearly indicate that differences between FBs and nonfamily businesses (NFBs) may exist because of their corporate environment (Smith, 2008). Therefore, Japan should be of great interest because of its long tradition of FBs, beginning even before the country opened its borders to the rest of the world at the end of the 19th century. For example, Japan contains two of the most ancient FBs in the world: Kongo Gumi, founded in 578 and taken over by Takamatsu Corporation in 2006, following the decline in the real estate industry during the 1990s, and Houshi, founded in 718. Furthermore, during the first decades of the 20th century, prior to World War II, the Japanese economy remained structured around *Zaibatsu*, which refers to FBs that function under the wing of family-owned holding companies.

During the second half of the 20th century, the dominant position of FBs in Japan began to falter. First, Allied forces dismantled *Zaibatsu*, and when *Keiretsu* emerged in the 1950s and 1960s as a new form of interfirm cooperation, companies had lost the family dimension (Miyashita & Russel, 1994). In addition, according to Morikawa (1996) and Morck and Yeung (2003), Japanese enterprise ownership underwent dramatic changes in recent decades, mostly at the expense of FBs. So what is the situation today? Do FBs remain a significant force in the Japanese economy? How do they perform and financially structure themselves compared with nonfamily businesses (NFBs)? Do they compare as in Western countries or differently?

Kurashina (2003), on the basis of a Western-based definition of FBs, finds that 42.68% of Japanese-listed companies in 2003 were FBs. On the basis of a widely used classification of Japanese industries, he finds that for 21 of the 33 classes, FBs perform better than NFBs, whereas in only 7 of the 33 do they perform worse. At first sight and broadly speaking, FBs in Japan appear to perform better than NFBs.