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## THE DAWN OF JAPANESE CORPORATE GOVERNANCE IN THE YAMATO ERA

### Abstract

**Background:** The subject of the study is Japanese corporate governance during the formation of the centralised Yamato state and the development of its specific features. Little has been written about the structures and characteristics of governance in ancient Japan. Thus, the article may contribute to reducing the gap that exists in this field in the Polish literature.

**Research purpose:** The aim is to try to show Japanese corporate governance in Yamato (until 645) and to identify those unique features and their roots that have not lost their relevance to this day. The paper verifies the thesis that the model of corporate governance developed in the Yamato period is a product of *uji* traditions and customs, as well as the hybridisation of culture and rights of the Japanese clans and Chinese Empire.

**Methods:** The analysis is carried out at macro and microeconomic levels based on a review of the literature on the history of Japan and corporate governance. The most important political, social, and economic events in the early Yamato are presented in building the centralised state, its governance, control, and incentive structures. The *uji*, the *be*, and the *uji-kabane* system are shown as mechanisms of governance.

**Conclusions:** The analysis confirmed the thesis that the Yamato corporate governance model is the result of the hybridisation of cultures and the laws of Yamato and China and that it created the foundations of Japan's unique contemporary model of corporate governance.

**Keywords:** Yamato, corporate governance, *uji*, *be*.

**JEL classification:** G34, K20, N15, N85

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## 1. Introduction

The aim of the paper is to examine the process of shaping Japanese corporate governance and to indicate the roots of its uniqueness in the period until the unification of the Yamato state in 645. Japan was chosen because it has developed a unique system of corporate governance. An attempt is made to learn how Japanese (corporate) governance and some of its structures emerged, and which factors are responsible for its uniqueness.

The purpose of governance is *to ensure that ownership is properly managed (directed) and controlled*<sup>1</sup> by using appropriate methods developed by the nation, implementing foreign achievements, or adapting them to its own reality. The literature review shows that Japan has a strong track record of hybridisation.

The thesis to be verified states that the Yamato corporate governance model results from the hybridisation of Yamato and Chinese cultures, especially their laws, and lays the foundations for the uniqueness of the Japanese corporate governance model.

The analysis is based on a literature review concerning the history of Japan and corporate governance.

## 2. The *uji-kabane* system as a basis of corporate governance model

Before Yamato, the Japanese made their living by gathering, fishing, and hunting.<sup>2</sup> Around 500–300 BC, *wet* cultivation of rice (given by gods) was introduced to Japan. Using irrigation channels required collective efforts and effective cooperation,<sup>3</sup> which resulted in unifying communities under powerful landowners and the formation of social classes.<sup>4</sup>

Ancient Japan was a tribal community, grouped into clans called *uji*. They were united under the leadership of a chieftain, who claimed descent from a common ancestor, and they worshipped the ancestral deity (*kami*). The

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<sup>1</sup> A. Cadbury, *The Financial Aspects of Corporate Governance (Cadbury Report)*: The Committee on the Financial Aspect of Corporate Governance (The Cadbury Committee) and Gee and Co, Ltd, London 1999, Introduction, p. 2.5.

<sup>2</sup> W.S. Morton, J.K. Olenik, *Japan. Its history and Culture*, McGraw-Hill Companies Inc, New York 2005, p. 7.

<sup>3</sup> C. Andressen, *A Short History of Japan. From Samurai to Sony*, Allen & Unwin, Australia 2002, p. 23.

<sup>4</sup> <https://www.britannica.com/place/Japan/Rise-and-expansion-of-Yamato#ref276125>; accessed 12.10.2021.

chieftain, a direct descendant of the clan's deity (*ujigami*), linked the group and its deity. He was the master of the household and the family, and he controlled the property of the *uji*.<sup>5</sup>

The *uji*, who were able to acquire new technologies, knowledge, and skills from China and Korea, gained a competitive advantage, power, and wealth.<sup>6</sup> Meanwhile, inter-tribal warfare, the emergence of elites, and competition for resources led to increasing politicisation.<sup>7</sup>

The *uji* initially formed a federation, but around the 3rd century, the Yamato clan became the leader and formed the Yamato kingdom.<sup>8</sup> It was headed by the *Daio*<sup>9</sup> *uji* (the imperial clan),<sup>10</sup> descendants of the sun goddess *Amaterasu-no-Omikami*.<sup>11</sup> The Yamato *uji* was able to develop political power and authority through negotiations and coercion, incorporating local chiefs and giving them places within its hierarchy. The Yamato owed the throne *to its success in mobilizing groups of skilled immigrants and supervising the distribution of foreign prestige goods*.<sup>12</sup>

Around 318, the head of the Yamato court came to be called the *great king*.<sup>13</sup> As the general head of all the *uji*, he worshipped the national deities, established or abolished *uji*, nominated *uji no kami*, and adjudicated disputes between them<sup>14</sup> (these functions have not changed for two thousand years).<sup>15</sup> These prerogatives gave the king power over the clans and forced their chieftains to seek appointments and avoid losing the sovereign's support. By the 5<sup>th</sup> century, the *uji* had united with the Yamato in economic, military, religious

<sup>5</sup> C. Andressen, *A Short History of Japan...*, p. 28.

<sup>6</sup> R.H.P. Mason, J.G. Caiger, *A History of Japan*, TUTTLE Publishing, 1997, p. 21.

<sup>7</sup> K.G. Henshall, *A History of Japan: From Stone Age to Superpower*, Palgrave Macmillan, 2012, p. 13.

<sup>8</sup> C.D. Totman, *A History of Japan*, Wiley-Blackwell 2005, pp. 52–53.

<sup>9</sup> Jimmu Tenno, a descendant of the sun goddess *Amaterasu-no-Omikami*, became the first emperor (Chinese model) and laid the foundations for modern Japan, creating a dynasty that prevails to this day.

<sup>10</sup> K.G. Henshall, *A History of Japan...*, p. 31.

<sup>11</sup> A. Zischa, *Japonia*, Trzaska, Evert i Michalski S.A., Warszawa 1937, pp. 3–7.

<sup>12</sup> M. Hane, G. Perez, *Premodern Japan. A Historical Survey*, Routledge Taylor & Francis Group, New York, London 2018, pp. 14–15.

<sup>13</sup> H.G. Wren, *The legal system of pre-Western Japan*, *Hastings Law Journal* 1968/20, issue 1, pp. 217–244.

<sup>14</sup> D.M. Brown (ed.), *The Cambridge History of Japan. Ancient Japan*, Vol. 1, Cambridge University Press, Cambridge 1993, p. 93.

<sup>15</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People from the Earliest Times to the End of the Meiji Era*, The Encyclopaedia Britannica Co, New York, London 1912, p. 96.

and family ties, becoming semi-independent units, approved and controlled by the Yamato ruler, and forming the basic decentralised management and supervisory structures until their abolition in 604.<sup>16</sup> The cooperation was based on mutual benefits, fear, ideological commitment, and personal participation in the emerging imperial system. Yamato established an unprecedented level of central control over the *uji*.<sup>17</sup> This way of operating is still widely accepted, and the Yamato's highly hierarchical administrative system is a hallmark of Japanese preferences.<sup>18</sup> In the 6<sup>th</sup> century, the Yamato king became an emperor residing in his capital.<sup>19</sup>

The ancient Japanese were divided into three classes of different status – the *kwobetsu* (imperial class), the *shimbetsu* (*kami* class), and the *bambetsu* (local ancestry and immigrants from Korea and China).<sup>20</sup> Only members of the first two could create *uji*, occupy positions, and receive titles assigned to a given class.<sup>21</sup> The distinction between *kwobetsu* and *shimbetsu* was important. The belief that the imperial dynasty descended from the Sun Goddess was used by the Yamato clan to gain political hegemony. It was supported by Shinto, *which became the state religion in the 5<sup>th</sup> century and since then had been used [...] to unify people under the imperial family.*<sup>22</sup>

For centuries, Chinese high civilisation flowed widely to Japan in the form of knowledge, technologies, new religious systems, government organisation and operation, land control, tribute collection, and culture (written scripts), inducing great changes in the social and political life of the country.<sup>23</sup> The ancient Japanese implemented only those that suited their needs and preferences, however.<sup>24</sup>

In the early 5<sup>th</sup> century, Confucian philosophy of moral behaviour and social stability was absorbed by the Yamato elites, although with slight modifications.<sup>25</sup>

<sup>16</sup> <https://www.britannica.com/place/Japan/Rise-and-expansion-of-Yamato#ref276125>; accessed 12.10.2021.

<sup>17</sup> C.D. Totman, *A History of Japan...*, p. 53.

<sup>18</sup> K.G. Henshall, *A History of Japan...*, p. 16.

<sup>19</sup> C. Andressen, *A Short History of Japan...*, p. 28.

<sup>20</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, pp. 27, 93.

<sup>21</sup> M. Hane, G. Perez, *Premodern Japan...*, p. 15.

<sup>22</sup> *Ibidem*, p. XIV.

<sup>23</sup> L. Ellington, *Japan. A Global Studies Handbook*, ABC-CLIO Inc, Santa Barbara, Denver, Oxford 2002, p. 23.

<sup>24</sup> K. Yamamura, Y. Murakami, *Is Society as a Pattern of Civilization: Introduction*, *Journal of Japanese Studies* 1984/10/2, pp. 279–363.

<sup>25</sup> R.H.P. Mason, J.G. Craige, *A History of Japan...*, pp. 39–42.

It strengthened the power of central government and stabilised Japanese society.<sup>26</sup> Confucianism focused on duties of care, obedience, and respect in relations between ruler and subject, father and son, and husband and wife, requiring care in return for obedience.<sup>27</sup> It was valued for its practical utility, stressing the need for good government and ethics, social hierarchy, harmony, duty, and respect for authority.<sup>28</sup> Caring, respect, and loyalty to superiors have become overriding priorities and important factors that determine Yamato corporate governance, and these values are still respected in Japanese corporations.<sup>29</sup>

To increase his authority, the king began to confer hereditary ranks (*kurai*) and titles (*kabane* – bone ranks), which were signs of status and the relationship with the Yamato ruler.<sup>30</sup> It became a formally recognised political structure in the 5<sup>th</sup> and 6<sup>th</sup> centuries, called the *uji-kabane* system,<sup>31</sup> aimed at strengthening the king's control.<sup>32</sup>

The chieftain (*uji no kami*) of the *uji* governed all its households, while the head of the great *uji* (*o-uji no kami*) controlled all the ordinary *uji* that comprised the *o-uji*. They were absolute masters of their land, families, and dependants – domestics, serfs, and slaves.<sup>33</sup> People living on private land were owned by a landowner. The *uji no kami* dealt with all the problems in his *uji*, only important cases were consulted with the *kami* of the *ō-uji*, or the imperial court. This structure of solving problems may be viewed as the internalisation used by Japanese corporations today.

The chieftains had distinctions. *Kami*, who claimed direct descent from the first emperor (*kwobetsu-uji*), were awarded the title of *omi*, while the descendants of founding gods (*shimbetsu-uji*) received the title of *muraji*, in case of *ō-uji* the titles were *ō-muraji* and *ō-omi*. The former supervised all members of the *shimbetsu-uji*, while the latter governed all members of the *kwobetsu-uji*. They were the highest officers in government before 645.<sup>34</sup> Lower-ranking titles were awarded to leaders of smaller *uji*, who had to swear allegiance. Day-to-day

<sup>26</sup> K. Hara, *An Introduction to the History of Japan*, Yamato Society Publication, G. P. Putnam's Sons New York and London, The Knickerbocker Press 1920, p. 42.

<sup>27</sup> H.G. Wren, *The legal system of pre-Western Japan...*, pp. 217–244.

<sup>28</sup> L. Ellington, *Japan. A Global Studies Handbook...*, p. 23.

<sup>29</sup> C. Andressen, *A Short History of Japan...*, pp. 32–33.

<sup>30</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 28.

<sup>31</sup> B.L. Batten, *Foreign Threat and Domestic Reform: The Emergence of the Ritsuryō State*, Monumenta Nipponica 1986/41/2, pp. 199–219.

<sup>32</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 137.

<sup>33</sup> *Ibidem*, p. 96.

<sup>34</sup> *Ibidem*, p. 95.

government affairs were supervised by hereditary heads of the *be* corporations.<sup>35</sup> The *uji no kami* discharged all offices in his *uji*, leased part of his land to its members, collected a percentage of the produce, and presented a portion of it to the court.<sup>36</sup>

The emperor could decide only on taxes paid by the *uji* and *be* that belonged to the crown. When he occasionally made requisitions for public works, festivals, or military operations, his request went to the *ō-omi* and *ō-muraji*, then to the *kami* of the *uji*, then to the *kami* of the *ko-uji* who gave orders to every household.<sup>37</sup> The chain of responsibility was well defined, and the *uji* chieftains did not fail to comply with the throne's request as it was liable to punishment.

There were two types of private landholding in Yamato, crown land (*miyake*) and estates belonging to non-royal aristocrats (*tadokoro*). The land of the country was governed but not owned by the emperor, except for imperial domains (*mi-agata*) and newly opened and confiscated land. The *mi-agata* were sources of income and instruments of the emperor's military and political control, ruled by the headmen of districts (*agata no nushi*).<sup>38</sup>

*Miyake*, established in the 3rd century in provinces of economic and strategic importance to the court, was cultivated for state revenue. It also included offices for administering agricultural affairs and storehouses. It was the property of the crown, as were the hereditary corporations that the *be* organised under chiefs who were responsible for their efficient production.<sup>39</sup> *Miyake*, like *be*,<sup>40</sup> were managed by the court or by provincial governors.

The most important unit of local administration was the *kuni*, divided into districts (*agata*),<sup>41</sup> and governed by *kuni-no-miyatsuko*,<sup>42</sup> usually heads of *kwobetsu-uji*. Districts, towns, and villages were administered by *tomo-no-miyatsuko*, chiefs of the *shimbetsu-uji*.<sup>43</sup> In around 374, *kuni no miyatsuko* became the provincial governor appointed by the king and granted one of the titles under the *uji-kabane* system.<sup>44</sup> They held provincial domains and governed

<sup>35</sup> B.L. Batten, *Foreign Threat and Domestic Reform...*, pp. 199–219.

<sup>36</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, p. 95.

<sup>37</sup> *Ibidem*, pp. 95 and 124–125.

<sup>38</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 139.

<sup>39</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, pp. 71, 87 and 95.

<sup>40</sup> B.L. Batten, *Foreign Threat and Domestic Reform...*, pp. 199–219.

<sup>41</sup> *Ibidem*.

<sup>42</sup> honourable (*mi*) servant (*yatsuko*).

<sup>43</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, pp. 87–95.

<sup>44</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 137.

them for an unfixed term as bureaucratic tribute collectors.<sup>45</sup> They were often blood relatives of the sovereign, extending the prestige of the Court.<sup>46</sup>

Districts, towns, and villages were governed by *tomo no miyatsuko*,<sup>47</sup> local agents under the court's control, though they were usually hereditary heads of old clans. They were responsible to provincial governors, and they had to strengthen the throne's authority if the hereditary *miyatsuko* was too powerful. The administration of royal estates, *kuni* and districts caused great demand for scribes familiar with foreign management techniques (the penman's craft of *be* ).<sup>48</sup>

There was no written law in Yamato until the 7<sup>th</sup> century. According to the custom law, *the king can do no wrong*. Crimes in ancient Japan were divided into sins against heaven and sins against the state.<sup>49</sup> Sins against heaven included injuries to agricultural works, crimes against the state were cutting and wounding, unnatural offences, evil acts, *etc.* Customs prescribed punishments, and the only method of undertaking legal procedures was by using tortures, and the whole family suffered for the crime committed by its member.<sup>50</sup> The duty of executing sentences was devolved to the military corporation (*mononobe*). High-ranking people were allowed to make amends for their wrongdoing by performing a religious purification ritual, paying all expenses, or presenting lands and valuables to the emperor.<sup>51</sup> Respect for the law and recognising social differences persists in Japanese society today.<sup>52</sup>

In the 6<sup>th</sup> century, the kings of Yamato suffered military failures in Korea, challenges to their authority in the provinces, and succession disputes at court. To face the growing external and internal threats, it was urgent to strengthen imperial control over the state's sacred and secular affairs.<sup>53</sup> The introduction of Buddhism<sup>54</sup> in the 6<sup>th</sup> century helped to fulfil that task.

<sup>45</sup> C.D. Totman, *A History of Japan...*, p. 53; D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 97.

<sup>46</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, p. 87.

<sup>47</sup> *Ibidem*, pp. 95 and 62.

<sup>48</sup> D.M. Brown (ed.), *The Cambridge History of Japan*, p. 158; K. Hara, *An Introduction to the History of Japan...*, pp. 60–62.

<sup>49</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, pp. 95 and 66.

<sup>50</sup> C.D. Totman, *A History of Japan...*, p. 44; F. Brinley, D. Kikuchi, *A History of the Japanese People...*, p. 95.

<sup>51</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, pp. 95 and 125–126.

<sup>52</sup> C.D. Totman, *A History of Japan...*, p. 43.

<sup>53</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 32.

<sup>54</sup> The Buddhism was introduced in 552 and promoted by the ruling class, especially the Soga clan. The Empress Suiko officially accepted Buddhism as a religion because it was regarded important in protecting the state.

Prince Shōtoku, appointed regent in 593, understood that to develop as an independent nation, Yamato must learn and adopt Chinese advanced technologies and political structures and implement reforms.<sup>55</sup> In 603, Shotoku established the *Twelve Level Cap and Rank System*, based on the Chinese pattern. Court officials had to wear silk caps of various colours, symbolizing their rank. Twelve grades were instituted and named after Confucian six moral qualities – virtue, humanity, decorum, faith, righteousness, and knowledge, each comprising a greater and lesser degree.<sup>56</sup> He initiated a system of promotion based on merit and individual achievements,<sup>57</sup> appointing talented people to government positions, regardless of their clan or title.<sup>58</sup> He also proclaimed the first written law of Japan, a *Seventeen-Article Constitution* (604),<sup>59</sup> a set of moral and political principles (a codification of Confucian ethics) addressed to all clans.<sup>60</sup> It established the ideals of a centralised state ruled by a single ruler and the principles of human conduct. The ruler, government, and people were the three human elements that made the state; their duties and rights were indicated, providing a fundamental law of the nation.<sup>61</sup> It was strongly influenced by Buddhism, which aided the centralisation of the state, implemented many political doctrines of Chinese government, and promoted all things Chinese.<sup>62</sup> The doctrines of Chinese government were used to gain control over the country and help the emperor gain legitimacy.<sup>63</sup> The imperial rule remained weak until 645.<sup>64</sup>

Regent Shotoku is called the father of Japanese civilisation.<sup>65</sup> He succeeded in introducing formal hybridisation, a centralised government, and in implementing the complex Chinese bureaucratic system to strengthen it. He propagated Chinese culture, Confucian ethics, and Buddhism. Chinese laws

<sup>55</sup> **W.S. Morton, J.K. Olenik**, *Japan. Its history and Culture...*, pp. 18–20.

<sup>56</sup> **M.W. Meyer**, *Japan A Concise History*, Rowman & Littlefield Publishers Inc, Plymouth 2009, pp. 6–7.

<sup>57</sup> **C. Andressen**, *A Short History of Japan...*, p. 33; **K.G. Henshall**, *A History of Japan...*, p. 18.

<sup>58</sup> The system of court ranks introduced by Prince Shotoku, remained until the mid-twentieth century. **R.H.P. Mason, J.G Caiger**, *A History of Japan...*, p. 75.

<sup>59</sup> **F. Brinley, D. Kikuchi**, *A History of the Japanese People...*, p. 140.

<sup>60</sup> **H.G. Wren**, *The legal system of pre-Western Japan...*, pp. 217–244.

<sup>61</sup> <https://www.britannica.com/place/Japan/Yamato-decline-and-the-introduction-of-Buddhism>; accessed 12.10.2021.

<sup>62</sup> **R.H.P. Mason, J.G Caiger**, *A History of Japan...*, p. 39.

<sup>63</sup> **H.G. Wren**, *The legal system of pre-Western Japan...*, pp. 217–244.

<sup>64</sup> <https://www.britannica.com/place/Japan/Rise-and-expansion-of-Yamato#ref276125>; accessed 12.10.2021.

<sup>65</sup> **F. Brinley, D. Kikuchi**, *A History of the Japanese People...*, pp. 95 and 143.

were used to limit the power of the clans and build the strong position of the imperial family. The court was given a new organisation and etiquette. Shotoku also introduced the Chinese-style calendar, and he is believed to have invented kana, used for phonetic purposes only.<sup>66</sup> Prince Shotoku wanted to create a strong country by incorporating the strengths of others, combined with his own willingness to learn and emulate. However, his death in 622 stopped the reforms for over two decades.<sup>67</sup>

### 3. The *be* corporations

In Yamato, there were two interwoven social organisations, the *uji* system and the *be* corporation system, which worked in clearly defined areas and were ruled by hereditary heads who held *kabane* titles.<sup>68</sup> *Uji* was a lineage group lined by blood, not by common occupation.<sup>69</sup>

The *be* (of Korean origin) corporations were structured like clans, not related by blood. They were subunits of the *uji*, organised into hereditary, specialised corporate associations of artisans of the same occupation.<sup>70</sup> They served the court or powerful *uji* (they were protected by them), providing revenues, independently pursuing some branch of industry, or rendering fixed services at the local or national level.<sup>71</sup> The *be* existed for every category of occupation and denoted family names.<sup>72</sup> They secured efficiency by specialisation under an officially appointed chief.<sup>73</sup>

The existence of *be* corporations means it is possible to talk about *corporate* governance at the dawn of Japan.<sup>74</sup> There were three social groups in the *be*

<sup>66</sup> The Japanese language is a mixture of early spoken Japanese, Chinese characters and two phonetic alphabets phonetic Japanese alphabets, katakana, and hiragana. **C. Andressen**, *A Short History of Japan...*, p. 35.

<sup>67</sup> **K.G. Henshall**, *A History of Japan...*, p. 17.

<sup>68</sup> **D.M. Brown** (ed.), *The Cambridge History of Japan...*, p. 101.

<sup>69</sup> **R.H.P. Mason, J.G Caiger**, *A History of Japan...*, p. 31; **D.M. Brown** (ed.), *The Cambridge History of Japan...*, p. 138.

<sup>70</sup> <https://www.britannica.com/place/Japan/Rise-and-expansion-of-Yamato#ref276125>; accessed 12.10.2021.

<sup>71</sup> **M. Hane, G. Perez**, *Premodern Japan...*, p. 15.

<sup>72</sup> **M. Hane, G. Perez**, *Premodern Japan ...*, p. 15; **D.M. Brown** (ed.), *The Cambridge History of Japan...*, pp. 139–140.

<sup>73</sup> **F. Brinley, D. Kikuchi**, *A History of the Japanese People...*, pp. 71 and 95; **C. Andressen**, *A Short History of Japan...*, p. 28.

<sup>74</sup> **D.M. Brown** (ed.), *The Cambridge History of Japan...*, p. 139.

(*uji*): the hereditary heads (appointed by the emperor), the members (peasants or artisans attached to the *be* (*uji*) as subordinate, manual labourers), and the household slaves (at the bottom of the social hierarchy).<sup>75</sup>

The power and prestige of emperors and clan heads were related to the number and strength of *be* they owned.<sup>76</sup> All *be* who discharged functions for the court were attached to the imperial *uji*.<sup>77</sup> They were agricultural communities of serfs working on estates, generating income for the maintenance of court officials. Some imperial *be* ran the growing royal estates, handing a large part of their produce to the monarch, to provinces and districts that served as arms of Yamato control.<sup>78</sup> The cultivators of *miyake* were called rustic corporations (*ta-be*), which had overseers (*tazukasa*) and officials in charge of the stores (*mi-agata no obita*).<sup>79</sup> The officially designated managers (*tomo no miatsuko*) of the *be* corporations were *omi* class aristocrats or the members of the royal family.<sup>80</sup> They exercised the power of life and death over the corporation members.<sup>81</sup> The military duties were entrusted to the military *be*, which consisted of the hereditary heirs of military authority (Mikoto deity descendants). They wore armour, carried swords, spears and bows, guarded the palace and ensured imperial power in the provinces.<sup>82</sup>

Skilled Chinese and Korean immigrants played an important role in the development of the *be* corporations. They were formed into corporations of people (*tamibe*), had personal freedom, and were dependent on the court, manufacturing valued articles for the imperial household or constructing huge burial mounds and complex irrigation systems.<sup>83</sup> Their leaders, and refugee aristocrats, were accepted into the Japanese nobility (33% of the Yamato nobility was Korean).<sup>84</sup>

After 540, the local officials who administrated the royal estates were responsible for managing them more efficiently and increasing control over

<sup>75</sup> C. Andressen, *A Short History of Japan...*, p. 28.

<sup>76</sup> R.H.P. Mason, J.G. Caiger, *A History of Japan...*, p. 30.

<sup>77</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 99.

<sup>78</sup> <https://www.britannica.com/topic/be>; accessed 12.10.2021.

<sup>79</sup> It was already noted that, in ancient Japan, officials and their offices had the same names. Thus, *miyake* signified a public estate or the store for keeping the produce, just as *tsukasa* was applied alike to an overseer and to his place of transacting business.

<sup>80</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, p. 138.

<sup>81</sup> *Ibidem*, p. 100.

<sup>82</sup> F. Brinley, D. Kikuchi, *A History of the Japanese People...*, pp. 95 and 66–67.

<sup>83</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, pp. 139–140.

<sup>84</sup> W.S. Morton, J.K. Olenik, *Japan. Its history and Culture...*, p. 14.

them. They were obliged to register all residents and keep written records of business activities.<sup>85</sup> The *tomo-no-miyatsuko* had to compensate for any gaps in the supplies provided to the monarch.

The *be* system was the primary means of population control before 645. The decentralised community was brought under the control of the clan chieftains and aristocrats, serving the court in a variety of hereditary functions. The result was a nationwide, multi-level system of private control under the authority of the Yamato king.<sup>86</sup>

#### 4. Yamato as a cradle of Japanese corporate governance

The introductory examination showed the sophistication of the way ownership *was directed and controlled* in Yamato. Its corporate governance stems from ancient beliefs and religious attitudes forming concepts such as the belief in imperial line divinity, long-term political and military family hierarchies, and the awareness of a unique, self-directed, and autonomous national identity.<sup>87</sup> The analysis of Yamato governance was performed on the macroeconomic and microeconomic levels. The first aspect is concerned with the organisation and governance of the state, while the latter concerns the relations between and within the *uji* and the *be*. In the period under consideration, the macroeconomic model changed more than the microeconomic.

The relations between the monarch and the clan chieftains did not depend on the land granted to them because it was governed, not owned by him. Yamato chieftains managed to turn the *uji* into a uniform structure by pursuing policy supported by their military, technological, economic, and organisational supremacy. Their competitive advantages resulted from clever diplomacy and the ability to learn and adopt new ideas and technologies from highly developed civilisations. They created the *uji-kabane* system, which ensured obedience and motivated the *uji* leaders to seek their favour and subordinated the leaders to them. There was also a relationship that obliged magnates to provide certain services in exchange for the right to administer their own territories and obtain certain titles.<sup>88</sup> In this way, the chieftains were made agents of the monarch

<sup>85</sup> D.M. Brown (ed.), *The Cambridge History of Japan...*, pp. 156–157.

<sup>86</sup> B.L. Batten, *Foreign Threat and Domestic Reform...*, pp. 199–219.

<sup>87</sup> M.W. Meyer, *Japan A Concise History...*, pp. 6–7 and 9.

<sup>88</sup> C.D. Totman, *A History of Japan...*, pp. 52–53.

as *whenever a principal has to rely on agents to handle his or her business, governance issues arise*.<sup>89</sup>

If the federation of *uji* is treated as a federation of companies (the macroeconomic aspect), the vertical relationships between Yamato and the *uji* may be considered in the light of Resource Dependency Theory, Social Networks Theory, and Managerial and Class Hegemony Theory. Three core ideas of Resource Dependency Theory (RDT) explain the internal and external actions of organisations – social context, strategies to enhance organisations' autonomy and pursue interests, and power (not just rationality or efficiency). The emphasis on the strength and tactics available to organisations distinguishes RDT<sup>90</sup> from other approaches.<sup>91</sup> It regards an organisation as a member of a relatively stable alliance which [*involves*] *agreements between two or more organisations to pursue joint objectives through a coordination of activities or sharing of knowledge or resources*.<sup>92</sup> In the RDT aspect, clans built inter-clan networks due to the interlocking resources between them. As open systems, they were influenced by their own resources and abilities and by the external social, institutional, or industrial environment.<sup>93</sup> Thus, the clans' external resources affected the behaviour of the whole organisation – the state ruled by the king.

Organisations need resources to exist, and they adopt various strategies to achieve it. In Yamato, these resources were military, economic and organisational factors, the intellectual potential of individual clans, access to sources of wealth, provision of know-how and technology, and the ability to create relationships with other clans, *be* corporations, elites, and political and other societal networks. The leader of the emerging state formed interlocks, alliances, made conquests to gain power, improve organisation, and increase legitimacy.<sup>94</sup> The synergy effects of the state influenced the solidarity, relationship, and integrity between

<sup>89</sup> **B. Tricker**, *Corporate Governance. Principles, policies, and Practices*, Oxford University Press, 2015, p. 4.

<sup>90</sup> It was published by **J. Pfeffer**, **G.R. Salancik**, *The External Control of Organizations: A Resource Dependence Perspective*, Harper & Row, New York 1978.

<sup>91</sup> **G.F. Davis**, **J.A. Cobb**, *Resource Dependence Theory: Past and Future, Research in the Sociology of Organizations* 2010/28, pp. 21–42.

<sup>92</sup> **W.R. Scott**, **G.F. Davis**, *Organizations and Organizing: Rational, Natural, and Open System Perspectives*, Pearson Prentice Hall, Upper Saddle River NJ 2007, pp. 206–207.

<sup>93</sup> **Z.Q. Zhan**, **X.J. Deng**, *Why They Connected: A Theoretical Analysis on the Cause of Interfirm Network Formation*, *Open Journal of Social Sciences* 2014/2, pp. 232–237.

<sup>94</sup> Based on **G.F. Davis**, **J.A. Cobb**, *Resource Dependence Theory...*, pp. 21–42.

the clans and restricted the use of power.<sup>95</sup> The unequal exchanges generate differences in power, authority, and access to further resources.<sup>96</sup> If power plays a role in conducting organisational life, then RDT is applicable.<sup>97</sup>

According to the Theory of Social Networks (TSN), those involved in corporate governance processes are linked through networks.<sup>98</sup> It focuses on social relationships in transmitting information, channelling personal or media influence, and enabling changes in attitudes or behaviour.<sup>99</sup> Adapting this to the *uji*, their members shared social standing (they were all chieftains of clans), class (they belonged to the *highest* classes), income (they were rich), education (differentiated by innovations and its absorption), institutional or corporate links (the *uji* and *be* corporations) and the background and lifestyle of the key players (the social order, wealth, the same values). Social networks can enhance or adversely interfere with independent and objective governance activities. Therefore, identifying and monitoring them provide insight into governance processes and powers.<sup>100</sup> The chieftains were crucial in the networks, connecting the *uji* to its strategic environment – the Yamato kingdom.

The Managerial and Class Hegemony Theory (MCHT)<sup>101</sup> perspective on the governance of companies (*uji*) focuses on the view that directors (chieftains) have of themselves and its impact on their behaviour and corporate governance. They perceive themselves as an elite group and behave as such, dominating both the company (*uji*, *be*), the organisation (Yamato) and its external linkages.<sup>102</sup> The top-management appointments must ensure that they fit that elite and sustain its image.<sup>103</sup> A hegemon (monarch) had to strengthen his position

<sup>95</sup> M. Zehir, A. Findikli, K. Çeltelgil, *Resource Dependence Theory, Firm Performance and Producers-Suppliers Relationships*, 14th ISMC and 8th ICLTIBM-2018, The European Proceedings of Social & Behavioural Sciences, pp. 162–172.

<sup>96</sup> T. Mendis, *Analysis of Corporate Governance. Theories and their Implications for Sri Lankan Companies*, Journal of the Faculty of Graduate Studies 2012/1, University of Kelaniya, pp. 29–46.

<sup>97</sup> G.F. Davis, J.A. Cobb, *Resource Dependence Theory...*, pp. 21–42.

<sup>98</sup> B. Tricker, *Corporate Governance. Principles, Policies, and Practices*, Oxford University Press, 2015, p. 68.

<sup>99</sup> W. Liu, A. Sidhu, A.M. Beacom, T.W. Valente, *Social Network Theory*, in: P. Rossler, C.A. Hoffner, L. van Zoonen (eds.), *The International Encyclopaedia of Media Effects*, Wiley, 2017, p. 1.

<sup>100</sup> B. Tricker, *Corporate Governance...*, p. 68.

<sup>101</sup> It was worked out by A. Gramsci, T.R. Bates, *Gramsci and the Theory of Hegemony*, Journal of the History of Ideas, Apr.–Jun. 1975/36/2, pp. 351–366.

<sup>102</sup> T. Mendis, *Analysis of Corporate Governance...*, pp. 29–46.

<sup>103</sup> B. Tricker, *Corporate Governance...*, p. 68.

(power) by implementing an effective system of motivation and supervision – the *uji-kabane* system. Such efforts were made by the Yamato rulers within high intensity of elite power struggles. This theory sees corporate governance as an interpersonal, political process.<sup>104</sup> The monarch's self-image affected the behaviour and performance of the court (board). Clan chieftains, with their self-image, knowledge of ongoing operations, and decision-making power, dominated the court (board) decisions.

In Yamato, an important factor in gaining hegemony and political consolidation was religion. Its monarchs led the worship of the national deities, using sacred symbols and ceremonies reinforced with secular rituals of respect and reward. The new order unified and supported the emerging imperial regime.<sup>105</sup>

The rulers built vertical and horizontal dependence structures in which the whole *uji* association functioned as a corporation. A formal, effective system of corporate governance was established in the form of a nationwide, multi-level system of private control headed by the king. The land was administered and controlled by appointed officials. The vertical governance relationships were clear, and the chain of responsibility was well defined. This system was supported by clan law and harsh punishments for breaking it. An important step in the development of governance was the *Seventeen-Article Constitution* (604), which distinguished the ruler, government, and the people who made the state and indicated the duties and rights of each of them.

At the micro level (the *uji*), Agency Theory can define the relationships between the clans and their leaders. The *uji*, treated as a corporation, was governed by a chieftain-principal, oriented towards growing his possessions, power, and position. The aim of the *uji* was to maximize the interests of the principals who were masters of the land, tribesmen, discharging all offices. The relationships between the *uji* chiefs, the leaders of the *be* and the appointed officials might be called agency relations. The unity of the *uji* state depended on the ability of the leaders of the *uji* clans to conclude and fulfil contracts and on the way conflicts of interest were resolved. The *be* were created to organize, protect, and extend highly specialised production and ownership, and increase its efficiency and profitability. They prove the existence of corporate governance in early Japan.

The analysis of the literature enables us to trace some factors that were responsible for the unique features of the current Japanese corporate governance. They include a strong group identity (with the family (clan), corporation (*be*) and community), the ability to cooperate, organize teamwork, and self-sacrifice.

<sup>104</sup> *Ibidem*, pp. 68–69.

<sup>105</sup> C.D. Totman, *A History of Japan...*, p. 54.

The suppression of individual interests for the good of the group was reinforced by Confucianism, which had influenced the social system since the dawn of the state. Its principles are still followed by the Japanese and their corporations.<sup>106</sup>

Confucianism promotes the importance of loyalty, which has distinguished the Japanese throughout the ages.<sup>107</sup> It focuses on the duty of care, submissiveness, responsibility, obedience, and respect in relationships between superiors and inferiors. This reciprocal obligation has become an established pattern, suppressing the decline of morality and discipline. These Confucian values are still respected and belong to the most important features of Japanese corporate governance. Its other characteristics are the internalisation of problems, unity against outsiders, respect for the law, and social differences. A lack of diligence was punished, even by death. It directed governance (supervision) in the state, *uji* and *be*, towards stimulating efficiency, competitiveness, and development by relying on recording business transactions, control, and penalties. Respect for superiors, knowledge, and education, is another feature of Japanese corporate governance that comes from ancient times.

For centuries, a hallmark of Japanese society, culture, politics, economy, and corporate governance has been hybridisation, recreating Japanese civilisation. Despite exceptional respect for their own tradition, the Japanese have demonstrated a great ability to implement the highest and best achievements of other nations, adapting them to their own circumstances and needs. Ideas that were similar or understandable to Yamato society persisted; those that were not suitable or that were impractical lost their importance. The centuries-old ability to adapt innovations and legal rules, and apply procedures and processes in a unique way,<sup>108</sup> plays a very important role in shaping Japanese corporate governance to this day.

## 5. Conclusions

The analysis of Yamato corporate governance proved to be a difficult task because of the length of the evaluation period and the number of fundamental changes that took place during it. Therefore, the research is only a contribution to understanding Yamato corporate governance.

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<sup>106</sup> C. Andressen, *A Short History of Japan...*, p. 33.

<sup>107</sup> K. Hara, *An Introduction to the History of Japan...*, p. 65.

<sup>108</sup> J. McEldowney, *Hybridization: A Study in Comparative Constitutional Law*, Penn State International Law Review 2010/28/3, Article 5, pp. 355–376.

The macroeconomic system of the state organisation and governance underwent more significant changes than the microeconomic level, which dealt with relationships between and within *uji* and *be* corporations.

The Yamato clan, striving to create a centralised state, managed to transform the *uji* federation into a hierarchical structure. These efforts were supported by the *uji-kabane* system, a governance model based on the symmetry of interests between the ruler and the *uji's* chieftains and conflicts of interest between individual *uji* (corporations). A nationwide, formal, multi-level system of governance and private control, overseen by the king, was established. The vertical relationship between the monarch and the *uji* can be viewed in the light of the Resource Dependency, Social Networks, and Managerial and Class Hegemony Theories.

On the micro scale, *uji* were governed by owners approved by the monarch; there was no separation of ownership and control. Internal governance of the *uji* did not imply agency conflicts, except for the relationships with the aristocratic heads of the *be* who, like the *uji* chieftains, were high-status managers responsible for production, and who exercised the power of life and death over the members. The rule of internalizing problems was used.

The *uji*, operating under the supervision of the sovereign, may be compared to current corporations that compete on the market, where bad governance and low efficiency result in bankruptcy or takeover. It was found that some characteristics of property supervision used in Yamato became specific features of today's Japanese corporate governance model. They were shaped by agricultural conditions, religious influences, and internal and external cultural factors. The great ability to successfully implement the best achievements of other nations to their own circumstances and needs became a crucial feature of Japanese corporate governance. The analysis confirmed the thesis that Yamato's corporate governance was the result of the hybridisation of Yamato and Chinese culture and law, and that it laid the foundations for the uniqueness of the contemporary Japanese corporate governance model.

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**PRZEDŚWIT JAPOŃSKIEGO NADZORU KORPORACYJNEGO W EPOCE YAMATO****Abstrakt**

**Przedmiot badań:** Przedmiotem badań jest japoński nadzór korporacyjny w okresie formowania się scentralizowanego państwa Yamato i kształtowanie się jego specyficznych cech. Jak dotąd niewiele pisano o strukturze i cechach nadzoru w starożytnej Japonii, zatem artykuł może przyczynić się do zmniejszenia luki badawczej istniejącej w tym obszarze w piśmiennictwie polskim.

**Cel badawczy:** Celem artykułu jest próba pokazania japońskiego nadzoru korporacyjnego w Yamato (do 645 r.) oraz wskazania tych jego unikalnych cech i ich korzeni, które nie straciły aktualności do dziś. Weryfikacji podlegała teza, że model nadzoru korporacyjnego ukształtowany w okresie Yamato stanowi wypadkową tradycji i zwyczajów *uji* oraz procesów hybrydyzacji kultury i prawa japońskich klanów i imperium chińskiego.

**Metoda badawcza:** Analiza prowadzona jest na poziomie makroekonomicznym i mikroekonomicznym w oparciu o studia literatury dotyczące historii Japonii i nadzoru korporacyjnego. Najważniejsze wydarzenia polityczne, społeczne i gospodarcze we wczesnym Yamato zostały przedstawione w kontekście budowy scentralizowanego państwa oraz jego struktur nadzoru, kontroli i motywacji. *Uji*, *be* i system *uji-kabane* są pokazane jako mechanizmy systemu nadzoru i kontroli.

**Wyniki:** Analiza potwierdziła tezę, że model nadzoru korporacyjnego Yamato jest wynikiem hybrydyzacji kultur i praw Yamato i Chin oraz że stworzył on podstawy współczesnego, specyficznego japońskiego modelu ładu korporacyjnego.

**Słowa kluczowe:** Yamato, nadzór korporacyjny, *uji*, *be*.