BOOK REVIEW

The Embedded Corporation: Corporate Governance and Employment Relations in Japan and the United States, Sanford M. Jacoby (Princeton, Princeton University Press, 2004, 248 pp. $35(U.S.) clothbound)

reviewed by David Marsden†

The Embedded Corporation examines changing patterns of corporate governance and human resource management in Japan and the United States. It is based on original case studies of twelve large firms in Japan and the United States, and a survey of top management executives in the two countries. In recent years there has been much debate about whether corporate governance and employment systems in the two countries are becoming more alike, after a period when the United States was learning from Japan, and now, when the flow of ideas seems to be running in the opposite direction. Jacoby focuses on the position of the human resource function within management and its priorities, and uses this as a litmus test of whether large firms in the two countries are moving away from an organizational, and toward a stronger market focus.

Jacoby identifies four hypotheses, each with predictions about the role of Human Resource (HR) executives and the nature of employment practices in the two countries:

1. *National model argument*: Japan will move toward the United States, the most successful model at the moment;
2. *Converging divergencies*: industry best-practice models will prevail, driven by technology and markets, and will increase within-country differences, and dilute between-country differences;
3. *Weak path dependence*: national economies will adapt to similar environmental pressures and will both move in the same direction, from their different starting points; and,

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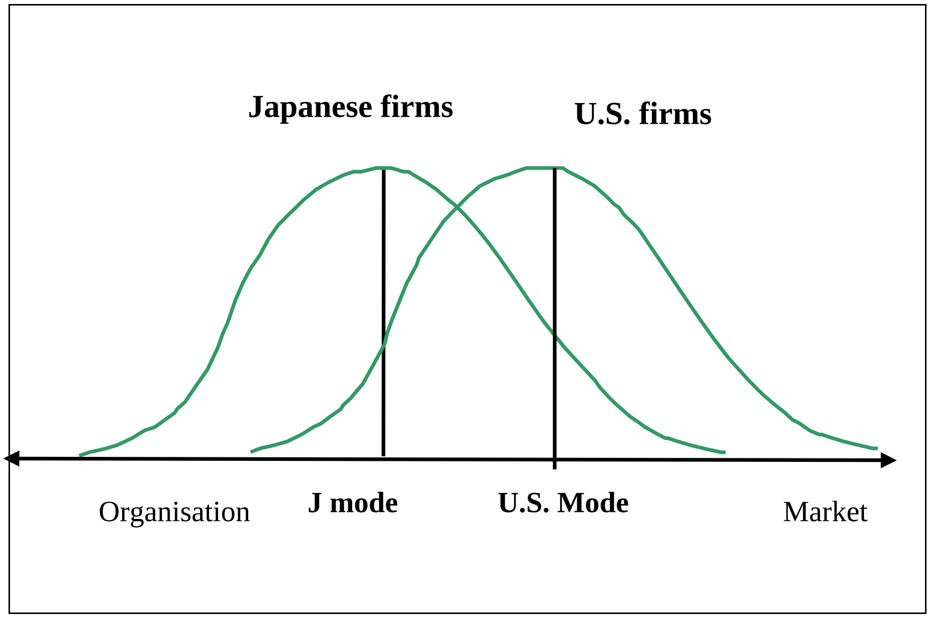
4. *Strong path dependence*: countries will preserve their dissimilarity and seek to preserve their local comparative advantage because they are locked in by complementarities and vested interests.

The stakes in this debate are high. For the world economy and for the Japanese people, if the Japanese economy's "lost decade" becomes a second lost decade, there is a great loss of economic and social welfare. Academically too, they are high. Japan and the United States have come to epitomize respectively the "coordinated" and the "liberal" market varieties of capitalism. If one of the leading coordinated market economies is failing, what should we make of the future for the others, notably Germany, which has also had its "lost decade"? Are there really multiple equilibria of good economic performance, or just one best set of policy prescriptions? One book cannot answer all these questions, but this one certainly helps to clear the ground, and helps to situate many of the news reports about change that have been circulating in recent years.

The first contribution of this excellent study is to make us aware of just how large is the variation in corporate governance and HR practices within both countries, even among large firms. Two of the most interesting chapters of the book comprise detailed analyses of the role of central human resource management in corporate decision-making and of key human resource practices in a sample of major companies matched by industry in the two countries. The resulting picture is aptly summarized by Jacoby's diagram showing two overlapping bell curves set on a scale running from "organization" to "market." The modes of the two curves are indeed where we expect to see them, the Japanese firms closer to the organizational, and the U.S. ones closer to the market pole, but what is striking is the overlap between the two curves.



Because so many of us are used to taking the lazy way, and working with national stereotypes, I have tried to summarize some of the key within-country differences in Tables 1 and 2 below, based on the material in chapters 3 and 5. The Japanese firms in the sample are indeed more focused on a narrow range of core activities (a "U-form" structure) and the U.S. ones are more diversified and divisionalized (the "M-form" structure). Nevertheless, within both country samples, there are exceptions. In addition, there is some support in both countries for Jacoby's hypothesized effect of strategy on structure—strong central HR departments prevail in the more focused organizations. In comparison, M-form organization is associated with delegation of many HR issues to the divisional level, reflecting the greater diversity at that level. However, the relationship is not a very smooth one, and the influence of other factors is also evident. For example, two of the U.S. companies are characterized by the supposedly dominant "market-oriented" approach, while two others reflect the "resource-based" approach. Ironically, in terms of our received models of the "Japanese firm," but not so according to received wisdom for the United States, both "resource-based" companies are non-union.

Table 1[1]
Some key features of the sample firms in Japan and the United States

Japanese Companies	**Structure**	**Position of HQ HR**	**Rank of HQ-HR power**	**Extent of market & shareholder reforms**
J Securities	U-form local offices	Powerful	1	Small
J Delivery	U-form local units	Powerful	2	Small
J Parts	U/M-form 14 functional divisions	Powerful	3	Moderate
J Electrical	M-form (36 fctn divs)	Mod powerful	4	Moderate
Construction Alpha	U-form (3 fctn divs)	Less powerful	5=	Moderate
Construction Beta	U-form (3 fctn divs)	Less powerful	5=	Moderate
J Electronics	From M-form moved to decentralised & then to product groups	Div HR autonomy	7	Great
U.S. Companies	**Structure**	**Position of HQ HR**	**Rank of HQ-HR power**	**Some key features**
U.S. Securities	Focused, weak divisions, (U-form), more decentralised than J Securities	Report to CEO & consulted on major initiatives	3	"Attractive employer" policy; Teams but individual prp
U.S. Package	Focused, weak divisions (U-form)	Report to CEO & consulted on major initiatives	1=	Resourced-based orientation; Non-union.

1. Based on material in Chapters 3 and 5.

U.S. Parts	Focused (U-form)	Report to CEO & consulted on major initiatives	4=	Market-oriented HR
U.S. Electro	Diversified, (M-form)	Report to CEO & consulted on major initiatives	1=	Resource-based orientation; Non-union, long-term emp.
U.S. Con/Energy	Decentralised & diversified (M-form)	No direct link to CEO	4=	Market-oriented HR; Strong "performance appraisal committee."

This case study evidence is supported by survey evidence from a larger sample of organizations in 2001, the respondents being senior managers. The picture from this is more familiar, perhaps because it deals with central tendency rather than diversity, but the results are very informative. They show a wider involvement of HR across a range of employment-related decisions in Japan than in the United States. They also show that there is still a stronger tendency for Japanese firms to use their internal labor markets for filling vacancies, nevertheless, a high percentage of U.S. firms also give priority to internal candidates. In terms of their values, HR executives in Japanese firms remain more likely than their U.S. counterparts to give priority to safeguarding employees' rights, less likely to value raising the share price, but again, we see that in both countries, HR executives show a strong concern for employee morale and for fair treatment, which might be considered to reflect a concern for "organizational" rather than "market" issues. The other notable finding, relating to increased line manager involvement in a range of HR policies, was that in the majority of cases, there had been no change over the preceding five years.

Thus equipped, we are able to return to the hypotheses set out at the beginning. Both the "national model" and the "strong path dependency" hypotheses have difficulties accommodating Jacoby's findings. Although one can perhaps identify a "Japanese model," it is less clear that we can do the same for the United States, where the supposedly generalized commitment to "market" over "organization" seems debatable. If it is difficult to define a consistent national model, then it is hard to establish a case either for one model "catching up" with the other, or for firms being locked into the iron cages of national institutional environments.

The "varieties of capitalism" theory as expounded by Hall and Soskice, by dint of its focus on decisions by firms, can tolerate a degree of within-country diversity. In similar fashion, so might Aoki's theory of dual equilibria as characterized by the "J-firm" and the "A-firm." These theories assume that firms face a range of possible trade-offs, and that concerns about institutional complementarities are but one of these. Variation about the mean is fine, provided there is regression toward the mean—the divergent cases in one period are drawn back toward the mean in the next one. In this regard, Jacoby's evidence is more troubling. There is scant indication of regression toward the two national means.

The other difficulty for these theories lies in Jacoby's evidence on historical change, of which he provides masterful summaries while presenting the points of central tendency in the two national distributions of firms' practices. At what point in history can we say that a new equilibrium has been reached, and how do we identify transitions between equilibria?

What of the other two hypotheses? Converging divergences, the increased importance of industry-specific factors, has some attractions, and the sectoral pairing of the sample firms lends itself to this question. Looking at the Japanese sample, it would seem that the firms in the sectors most exposed to international competition, electronics and electrical goods, have shown bigger changes than those more rooted in the national market. However, construction does not fit so well, and the direction of change in the U.S. sample firms is quite diverse. Weak path dependency, like all "weak" hypotheses is hard to reject because its predictions are weakly specified, but that also makes it less informative. The strongest prediction is that firms would move in the same directions in both countries, given similar competitive pressures. In some cases, Jacoby does observe a similar direction of change, notably at J-Delivery and U.S.-Package, and just possibly at the two securities companies, but the picture is less clear at the others.

Thus we are left with evidence of persistent national differences across companies in the same sectors, supported by the survey based on a larger sample of organizations, and of a considerable dispersion around the mean in both countries. However, the evidence of change seems to display neither consistent common directions that would support the two intermediate hypotheses, nor consistent regression toward the mean that would support the national models and the strong path dependency hypothesis. Jacoby's findings of within-country diversity echo those coming from large-scale establishment surveys in Germany that show that the coverage of works councils and of industry bargaining, key features of the "German model," are much less widely diffused than was once thought. Thus while there are clear differences between "national means," it would appear that there is much greater scope for choice of HR strategy, and internal organization, by companies than is allowed by many of our "national models" whether they are based on multiple equilibria or on institutional embeddedeness.