

them, implicitly approve of their management techniques and decisions. This signals to other principals that their agents are operating in the owners' best interests.⁵⁷

- Patient Capital

The financial relationships between *keiretsu* firms, and the central roles of commercial banks within *keiretsu*, beg the question as to whether Japanese firms have access to cheaper, longer-term capital, known as patient capital, and, if so, whether that access confers an international trading advantage. The absence of concern about corporate take-overs due to the lack of available shares, the long-term relationships between banks and other members of *keiretsu*, and the reliance of Japanese firms on banks for financing have led some analysts to conclude that capital is indeed cheaper, and easier to access for longer time periods, in Japan.⁵⁸

There is little debate as to whether Japanese firms have access to long-term capital. It is thought that the availability of long-term bank debt financing allows Japanese corporations a longer planning horizon.⁵⁹ This is due to the certainty of interest payments, and less pressure from shareholders to maximize profits -- and ultimately shareholders' returns -- in the short term.

One advantage of the longer planning horizon associated with the reliance on bank debt and stable shareholders is that Japanese firms are able to distribute less income as dividends and retain more for reinvestment.⁶⁰ In addition, there is a tax benefit to retaining earnings, since capital gains from the eventual sale of securities

⁵⁷ The belief that cross shareholding is related to making managers more accountable to owners is not universally held. Some analysts feel that cross shareholding is only a means to cement mutually beneficial long term business relationships. See "Corporate Governance Survey", in *The Economist*, London, January 29, 1994, p.11.

⁵⁸ For a review of five separate studies that suggest the cost of capital in Japan is cheaper than in the U.S. (by anywhere from 1.6% to 6.7%), see W.C. Kester and T.A. Luehrman, "The Myth of Japan's Low-Cost Capital", in *Harvard Business Review*, Vol. 70, No. 3, Boston, MA, May-June 1992, p. 133.

⁵⁹ See E. Razin, *op. cit.*, p. 366. See also M. Porter "Capital Disadvantage: America's Failing Capital Investment System", in *Harvard Business Review*, Vol. 70, No. 5, Boston, MA., September-October 1992, pp. 65-82.

⁶⁰ See E. Razin, *op. cit.*, p. 360. Dividend yields in Japan averaged 18.2% between 1970 and 1991, and 24.5% in North America over the same period. See R. W. Wright, *Japanese Finance in Transformation: Implications for Canada*, The Canada-Japan Trade Council, Ottawa, 1994, p. 9.