Japanese firms succeed with adopted heirs

By YUPANA WIWATTANAKANTANG

MENTION “child adoption” and the image of infants or young children, often needy, would likely come to mind. We might also assume that the reason behind a couple’s decision to adopt a child is fertility problems, or a desire to give an orphaned child a home. We also hear of people adopting children to rescue them from a dangerous environment.

In Japan, however, the notion of adoption takes on a different twist, as adoptees there are usually already working adults. This unique practice of adopting adults which has been in existence for more than two centuries has helped to make Japanese family firms unusually competitive.

There are two distinctive aspects about Japan’s family businesses: First, business families in Japan continue to practise a form of arranged marriage, in which the daughter meets an approved groom, selected by the patriarch.

Second, Japanese families may adopt adult sons if nature fails to provide a male heir, or provides inadequate ones. Business families often select such sons from among their most promising top managers. The “new” son then takes on the family name, swears allegiance to his new ancestors and, in most cases, marries the daughter of the current patriarch.

Adopting highly qualified adults to head family businesses hence has the triple effect of displacing untalented blood heirs, eliciting effort from unrelated professional managers who might be “promoted” to adopted son, and eliciting effort from blood heirs who live under an ever-present threat of being replaced by a “better” adopted son.

We studied 1,367, or 95 per cent of non-financial firms that were listed on Japanese stock exchanges between 1949 and 1970, and found that such inherited family firms were a more important part of the postwar Japanese economy than many have thought. About a third were run by their founders’ heirs or had heirs as major shareholders.

Among the family-run firms, we also found that the businesses managed by adopted heirs outperformed blood heirs’ firms, and matched or nearly matched founder-run listed firms. Groups controlled by adopted heirs generated returns on assets that were, on average, 39 per cent higher than those of non-family companies. The difference was less stark, though, for companies with biological heirs in charge.

Well-known carmaker Suzuki is one company that has relied extensively on adoptees for the top job, which is currently held by Osamu Suzuki. Born Osamu Matsuda, he graduated from Chuo University in 1953, and worked at a bank until 1958. At age 28, he was adopted by the Suzuki patriarch, Shoko Suzuki, married a Suzuki daughter, and took the Suzuki family name – all simultaneously. Mr Osamu Suzuki joined Suzuki’s board in 1963, and is president of the company today.

Although it would be difficult to replicate such family business models outside Japan, it might be worthwhile for others to take a leaf from such companies. The practice of adopting heirs, and the incentives it creates for both professional managers and potential heirs to perform, plausibly renders Japanese family firms more professionally managed than their peers elsewhere, in that star professionals occupy the top job.

Some might argue that this then does not render them genuine family firms. However, even without adoptions, carefully selected sons-in-law might have similar effects.

Company leaders need not necessarily adopt an heir to ensure their business survival and competitiveness. However, the success of family-run firms in Japan may offer some insights on how to attract, incentivise and retain top talent.

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