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Helmut Dietl. *Capital Markets and Corporate Governance in Japan, Germany and the United States: Organizational Response to Market Inefficiencies.* London and New York: Routledge, 1998. 208 pp. $75.00 (cloth), ISBN 978-0-415-17188-5.

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Helmut Dietl deserves credit for authoring a first comparative study on capital markets and corporate governance across three nations using an integrated theoretical framework. Previous works have focused on two-country comparisons, typically the US and Japan, Japan and Germany, or the US and Germany. There have also been a number of non-theoretical studies discussing these three nations within a coherent framework. The author's efforts reflect steadily increasing interest in the institutional characteristics of capitalism, and theoretical developments regarding firm behavior, agency problems, and corporate finance. Dietl succeeds in examining this theory in a three-nation context, although the validity and persuasiveness of his final conclusions can be regarded with some skepticism.

The book consists of two parts: theoretical framework and empirical evidence. The first section introduces basic concepts for analysis. Key concepts include: investment relationship (the relation between investors and firms), investment plasticity (reflecting agency and governance problems), industry maturity, regulatory environment (neoclassical or relational is the author's basic dichotomy), and organizational mode (unintermediated capital markets, intermediated capital markets, holding company, multi-divisional organization, LBO association, financial keiretsu). The goal of the second, shorter, section of this book is to characterize organizational responses to capital market inefficiencies, corporate governance structures, and regulatory frameworks among three nations.

The framework of this book is coherent, and well organized. Prior theoretical results are fully utilized in building up this framework, although references are mainly limited to the 1980s. Descriptions of the regulatory systems for all three countries appear quite balanced. I feel little complaint when reading the portions regarding Japan. It is respectable that a single author could explain complicated aspects of all three nations' institutional characteristics without any serious discrepancy. Accordingly, this book offers the reader a useful summary of corporate governance systems, regulatory frameworks, and organizational characteristics.

There are, however, several points which I found frustrating. First, the contribution of existing standard works to the author's study is not made clear. With regard to the Japanese capital market and corporate governance system, several important works were published in the 1990s. Representative texts include Aoki and Patrick (ed., *The Japanese Main Bank System: Its Relevancy for Developing and Transforming Economies, Oxford University Press, 1994). Additionally, Aoki and Dore (ed.,* The Japanese Firm: Sources of Competitive Strength, New York, Oxford University, 1994) includes several important papers concerning this topic. To my understanding, Edward and Fisher (_Banks, Finance and Investment in Germany, Cambridge University Press, 1994) has become a standard text in the case of Germany. Dietl makes no reference to any of these works in his book. Consequently the reader finds it difficult to separate previous results from the author's own research.

Second, with regard to Japan, the author's main message is that the regulatory environment is a hybrid neoclassical and relational system, with a corresponding multi-divisional, financial *keiretsu* organizational response. However, it would be more helpful if the conceptual relationship between financial *keiretsu* and the main bank system were made clear, given recent emphasis on the main bank system as an alternative mechanism of corporate governance. Care should also be used when the multi-divisional form is identified as an organizational mode in Japan, based on the consensus that the multi-divisional form in Japan is quite different in comparison to its US counterpart (see Mark Fruin, *The Japanese Enterprise System*. Oxford, Clarendon Press, 1992).

Another weakness with regard to Japan concerns the author's evaluation of the effectiveness of Japan's regulatory environment. Dietl very acceptably stresses the strong influence of the American model on Japan's regulatory framework. He then goes on to implicitly assume that the Japanese hybrid system is a combination of the advantages of both neoclassical and relational systems. However, there are other possible combinations. Although financial *keiretsu* may allocate resources efficiently and reduce agency costs, it is also highly possible that *keiretsu* could increase allocative inefficiency. This cost of financial *keiretsu* should be considered, especially when considering the causes and effects of the late 1980's "bubble" economy and its subsequent collapse in the 1990s.

My final complaint is that the presentation of empirical work could be more complete. First, the author uses random selection, which is in itself not bad, for sample selection. However, given that previous empirical studies have normally based sample selection on objective criteria such as firm size or industrial category, the decision to use random selection requires explanation. Similarly, the composition of sample firms in terms of size, industry affiliation, and rank in assets should be added. Secondly, it is regrettable that the time period for empirical evidence is not shown. Although it seems clear that sampling began in the early 1990s (possibly 1993 or 1994), the time period under consideration remains unclear. The relation in time relation between dependent and independent variables is also unclear. Lastly, the description of variables seems somehow unclear, and slightly subjective. There is no sample distribution given for the variable, organizational mode. While the variable, investment plasticity, is clearly defined as R&D investment plus service related sales to total revenues, from the viewpoint of a fellow researcher, it would be more reader friendly if the source of this information was fully described. Similar comments can be made regarding the variable, industry maturity, which is a discrete number from one to five. No basis is given for determining industrial maturity values, nor does the book include a distribution of samples.

In general, it would be helpful if the author provided a descriptive summary for each variable before reporting its estimation results. Similarly, tabular data for organizational form, industry maturity, and investment plasticity could have been provided in appendices. Although empirical results as presented support the author's theoretical framework, this conclusion is not robust and persuasive, given the evidence provided and statistical procedure.

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