Leveraging Torihiki-Jisseki through Japanese Small- and Medium-Sized Enterprises’ Overseas Businesses

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Abstract: In response to arguments on the hollowing out of industries whereby an expansion in overseas production causes decreased domestic production, recent studies, primarily in the field of international economics, have pointed out the increase in domestic production due to an expansion in overseas production. Regarding specific mechanisms, Amano (2000) emphasized that when large companies with abundant management resources expand their overseas production, their spontaneous and induced conversion behaviors cause an increase in domestic production. Responding to this assertion, on the basis of case studies on small- and medium-sized enterprises (SMEs) with few management resources, this paper discovered a mechanism in which abundant management resources are not assumed. This mechanism was observed in the automotive parts industry in Japan, which faces difficulties in acquiring new customers because of fixed relationships. In this industry, it is

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possible to acquire new customers domestically through *torihiki-jisseki* ("track record of transactions" in Japanese) when overseas manufacturing sites conduct business with new customers. However, this strategy is a paradox for SMEs in Japan that wish to grow and survive domestically since it advocates overseas expansion rather than domestic expansion.

Keywords: SME, home base, internationalization, *torihiki-jisseki*, customer channel

## Introduction

This study discusses corporate domestic growth after an expansion in overseas production. In response to discussions about the hollowing out of industries, that is, domestic production decreases because of an expansion in overseas production (Nakamura & Shibuya, 1995), some recent studies, primarily in the field of international economics, have noted that domestic production increases with an expansion in overseas production (Hijzen, Inui, & Todo, 2007; Matsuura, Motohashi, & Hayakawa, 2008; Yamashita & Fukao, 2010). At the same time, focusing on international management, Amano (2000, 2005) identified a mechanism wherein an expansion in overseas production leads to an increase in domestic production. In this phenomenon, domestic production increases through an expansion in overseas production, thereby promoting two conversion behaviors: spontaneous and induced (Amano, 2000).

However, Amano studied large firms with abundant management resources, making the study a poor fit for small- and medium-sized enterprises (SMEs) with few management resources. If one posits that SMEs experience expanded domestic production after an overseas expansion, then what are the success factors causing such a phenomenon? This study aims to identify these mechanisms by
investigating an SME that witnessed growth in domestic production because of an expansion in overseas production.

This paper studies an SME that manufactures production goods. Customers often determine the functionality and specifications of the products in this industry. This, in turn, helps determine what management resources and capabilities will be held by the company (Takashima, 1998). Entering into a business relationship with a new customer promotes the accumulation of company resources and capabilities and enables the company to grow (von Hippel, 1986). In Japan, where long-term, fixed relationships are a standard business practice and keiretsu relationships usually dominate the automotive parts industry, it is difficult for new companies to enter the market (Asanuma, 1997).

However, Japanese companies bound by fixed business practices domestically do not hold the same position overseas. In recent years, large firms expanding production overseas have demonstrated a tendency to procure parts locally (Kato, 2011). Unlike the situation in Japan, given a chronic shortage of suppliers in overseas markets, Japanese SMEs entering such markets find it possible to become suppliers with other firms even without precedents of such relationships in Japan.

This paper concludes that as the global supply chains of Japanese firms expand, even SMEs can develop new customers among Japanese companies overseas. Japanese SMEs can even enter new relationships domestically if they can create a torihiki-jisseki (“track record of transactions” in Japanese) overseas, thereby expanding

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1 It has been noted that companies placing purchase orders only with specific suppliers with whom they have accounts are examples of these fixed business practices (Inamizu & Wakabayashi, 2009, 2013).

2 Keiretsu transactions function to reduce costs and improve quality over the long term though frequent contact between automakers and suppliers. For example, Konno (2003, 2007) covered details of automakers and suppliers in Japan.
domestic production.

**Case Study of Japanese SMEs in China**

The case provided herein is of Company A, which expanded domestic production by first expanding overseas. Company A is a manufacturer of mainsprings, which are small springs used in car seats. The company has 130 employees in Japan and has a capital of 50 million yen. The company’s primary customer is a 1st-tier Toyota supplier, Company I. Company A’s Chinese subsidiary, Company α, has two business lines, wire ropes (created in 1998) and mainsprings (created in 2002). Company α started the mainspring business after ensuring the wire rope business was on track.

Although Company I did not have a production site in China, Company α was set up in the country as a mainspring business in 2002. At the time, there were almost no local companies that could manufacture automotive springs; thus, Company α’s main competitors were other Japanese firms. The number of automobiles sold in China in 2002, when Company α started its mainspring business there, was 3.2 million. This number rose to 8.8 million in 2007 and 19.3 million in 2012, a six-fold increase in 10 years. During that period, no Japanese competitors entered the market.

Company α’s strengths vis-à-vis its competitors are

1) stable quality and
2) quick prototyping.

The company’s stable quality was a result of importing its in-house manufacturing equipment for springs from Japan. Quick prototyping was of two varieties: a) creating prototypes faster than other companies by using existing designs documents and b) presenting prototypes in a follow-on meeting after first understanding the customer’s wants, rather than using design documents.
Of great value in expanding Company α’s customer base in China was transactions with Company S, a joint venture between a Japanese firm and Taiwanese firm Company X. Company X had formed joint ventures with numerous Japanese auto parts manufacturers, including Toyota, Nissan, Mazda, and Honda, in multiple keiretsu. Through its transactions with Company S, Company A was introduced to several joint venture auto parts manufacturers in Matsuda, Nissan, and other keiretsu in which Company X had invested.

Transactions with these joint ventures led to a further expansion in Company α’s customer base. The Japanese partners in these joint ventures were not only involved in Chinese joint ventures but also were frequently expanding their own production. Thus, Company α was able to leverage its torihiki-jisseki with these Japanese–Taiwanese joint venture firms into Japanese firms making

![Pie Chart](source.png)

**Figure 1.** Percentage of sales of mainspring business in China (2011)

*Source:* Company A presentation document.
their own investments in China. The company not only worked with Japanese firms but also expanded its relationships with U.S.-based and local manufacturers through introductions from the Japanese–Taiwanese joint venture firm.

Figure 1 shows the percentage of sales from each mainspring customer in China. In 2011, the company had transactions with a diverse clientele comprising local subsidiaries of Japanese and U.S.-based firms, Japanese–Taiwanese joint ventures, and local firms.

Two Ways of Employing Torihiki-Jisseki Leverage in Japan

In the previous section, we stated that Company α was able to create torihiki-jisseki with a variety of companies in the mainspring industry in China. This section discusses the mechanisms that allowed an expansion in domestic production through this overseas torihiki-jisseki.

Company A’s domestic sales were 2.5 billion yen in 2003, with 2 billion, or about 80%, coming from sales to Company I. However, Company A was able to generate new domestic customers through its torihiki-jisseki with a variety of customers in China. This resulted in Company A increasing its domestic transactions to other keiretsu, including Honda, Nissan, and Mazda. In 2010, domestic sales reached 4 billion yen, and despite sales to Company I increasing to 2.2 billion yen, Company A was successful in lowering the percentage of overall sales to Company I to 55%.

Company A used its overseas torihiki-jisseki in the following two ways:

1) Domestic sales approaches via its overseas sites.
2) Increasing the recognition of Company A in the Japanese media by publicizing its Chinese subsidiary, Company α, as the leading
company for springs.

(1) Sales from overseas sites

As already mentioned, it is normally difficult for domestic sites to sell to companies outside of a keiretsu when no previous relationship exists. In Japan, existing suppliers are given preferential treatment, and it is difficult for companies with no torihiki-jisseki to become candidates for procurement. Moreover, there is an implicit rule within the industry that makes companies hesitate to sell directly to companies outside their keiretsu. An executive at Company α stated,

“It is very difficult to enter [into relationships outside of one’s keiretsu in Japan]. For example, if we tried to sell to Mazda, they may say, ‘Stop it Company A, what are you doing?’ Some may try and stop us from upsetting the way of things in the industry. That makes it hard. In Japan, rather than selling to other keiretsu, it’s easier to first create torihiki-jisseki with Nissan or Honda keiretsu companies in China and then get an introduction with the right people in Japan from the China side.”

In other words, the means taken by Company A was to sell to the overseas sites of a company with which it wanted to do business and then have that company make introductions to its domestic sites in Japan. After this, Company A would be made a potential supplier. The overseas sites of customers will already have torihiki-jisseki with Company α, allowing the customer to make Company A, the parent of Company α, a candidate as a supplier. Having come that far, Company A may then get requests for quotes as a procurement candidate. If they provide better quotes than other suppliers, they can then transact business with the

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3 Interview with Company α president (and Company A vice president) on September 2, 2011.
customer. By selling indirectly in this manner through its overseas sites to companies outside of its keiretsu, where it had been difficult to sell directly, Company A was successful in acquiring new accounts.

(2) Overseas reputation improves domestic recognition

While there were many firms that provided the same types of products and services in Japan as Company A, there were few similar firms in China. Thus, as Company α created torihiki-jisseki with a variety of companies in China, they built a solid reputation as the leading company for mainsprings in China.

This reputation in China extended to Japan. Not many SMEs conduct business overseas; therefore, successful SMEs overseas are often the subject of media attention in newspapers and magazines. Company A was previously anonymous in the industry circles Japan, but media attention brought increased domestic recognition and the company began receiving inquiries from potential customers.

Conclusion

This paper presents the case of Company A and identifies a mechanism whereby the company developed new domestic customers by leveraging torihiki-jisseki with various customers in overseas markets. It must be noted that behind this mechanism is a characteristic particular to the Japanese automotive parts industry, wherein companies work to reduce costs through long-term relationships. In other words, it is possible that this mechanism would not be applicable outside of Japanese companies. At the same time, this mechanism, quite paradoxically, calls for SMEs in Japan, which may wish to grow and survive domestically, to strive for overseas, rather than domestic, expansion. Compared with SMEs in
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other countries, it is possible that those in Japan have different motivations regarding overseas expansion. Whether this mechanism can generally be applied to other SMEs in Japan requires further case studies and quantitative research.

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