

OUTSOURCING BUSINESS IN JAPAN - LESSON FOR THE DEVELOPING COUNTRIES

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ABSTRACT

The development of Japan can be attributed to the small businesses and they constitute about 99 percent of the total business sectors. Outsourcing businesses have supported the Japan to excel in the various quality productions of machines and equipment and is emerging as one of the leaders of quality production. Outsourcing is widely used in transport, machinery, electrical machinery, IT and other machine related industries and in textiles industry to supply the parts or components of a certain standards at the price generally agreed between the two parties – parent company and outsourcing firms/companies.

Introduction

Japan's success in industrial ventures has attracted attention to many countries – developed and developing and many countries would like to emulate its success. Japan has shown an exemplary of a nation who built the country from scratches within a short span of time. One of the successes is the outsourcing system in Japan. Today Japanese companies are increasingly making the strategic decisions - they are using outsourcing for their business solutions and to meet their business needs faster, cheaper and smarter.

The changing business phenomenon is exerting the need for outsourcing and the Japanese businesses are under increasing pressure from new domestic and international competitors. There is a flourishing market for manufacturing sector especially in IT outsourcing and also the pressure is on management to reduce costs for all areas of business operations. Outsourcing is only a panacea for the companies to improve their performance and competitiveness.

A contract to supply parts or even completed equipment to a contracting company (hence called parent company) has become a prominent industrial phenomenon in Japan and this aspect is termed outsourcing. It has become a unique production system of social labour division. A large firm enters into the contractual relationship with the small/large firms to supply the parts and component or even a partially completed form for specified or unspecified period is called outsourcing. It is said that a Japanese automaker buys as much as 75 percent parts and components for car from its subcontractors whereas US automaker buys only 52 percent. From this simple case itself the role of subcontractors become clear that the Japanese manufacturers are wisely resorting to the concept of proper social division of labour through outsourcing.

Thousands of small and medium enterprises are working as primary, secondary, tertiary subcontractors and so on. The bottom subcontractor might be a single individual with a small machine operating in his house and their relationship is vertical and looks like a pyramid shape having a several layers – major firms on the top and numerous subcontractors/suppliers at the bottom. Subcontractors can be divided into two types (i) those producing and processing parts of wide usage, and (ii) those producing or processing of specialized technical parts.

In Japan the parent company means the enterprises placing order for manufacturing parts, components or rendering services and subcontracting companies means the supplying companies of such items or services. The magnitude of such arrangement has crossed the national boarder and has spread to several countries as well.

Research Methodology

This study was based on the descriptive type of research design in which ex-post facto approach has been followed. The study was designed to gain familiarity with the workings of small and medium enterprises financing, working and their outsourcing business and an attempt has been made to achieve new insights into the problem of transaction and dealings of these enterprises with large companies (parent companies).

The respondents companies includes those firms producing various instruments like medical x-ray instruments, aircraft support instruments, industrial automatic machine, scientific precision analysis instruments, instruments for physical education, ophthalmology instrument etc.

The data derived from the aforesaid sources have been processed, tabulated and percentages were calculated. Simple arithmetic means have been widely used.

Reasons of being a Subcontractor

Reasons furnished by the outsourcing small and medium firms having relations of outsourcing with the small firms. The reason given by them:

Table 1: Reasons of being a Subcontractor

	Reason of being a subcontractor	Percentage
1	Volume of work is stable	59.1
2	Difficult to plan, design, layout or develop by themselves	45.8
3	Difficulty to get order by only their efforts	42.4
4	Want to concentrate on productive activities only	38.7
5	Have less anxiety for bad debts	27.7
6	To increase the credit worthiness	26.2
7	Easy supply of raw materials and primary goods	21.7
8	Help them to have technical assistance	17.4

Source: Small and Medium Enterprise Agency, MITI

Note: Total is over 100 since data overlap

The reasons of being subcontractor of the large may be numerous. But the most crucial things are assured market for their products and survival under the protection of big firms.

When we look at the above table we find that 59.1 percent thinks that the volume of business is stable, 45.8 percent are of the opinion that it is difficult to plan, design and layout or develop one's product as a subcontractor, 38 percent said that it is difficult to get an order by one's efforts, 27.7 percent said that while working for big firms they have credit worthiness, 21.7 percent replied that it is easy to get raw materials and primary goods and lastly 17.4 replied that they became subcontractor to get technical assistance from the parent company.

Reasons furnished by the parent company on having relations of outsourcing with the small firms.

Table 2: Parent company's Reasons for Outsourcing

		Percentage
1	Subcontractors have expert skills that the parent company does not possess	59.1
2	The parent company can concentrate in the field of its specialty by outsourcing	45.8
3	Costs of production by subcontractors are low	42.4
4	The outsourcing company can respond readily if changes in output quantities	38.7
	Outsourcing is more efficient since parts are produced in small lots	27.7
5	Organizational efficiency falls if the parent company becomes too big	26.2
6	Other reasons	21.7
7		17.4

Source: Small and Medium Enterprise Agency, MITI

Note: Total is over 100 since data overlap

More and more large manufacturing firms in Japan have resorted to outside procurements of parts and components than producing by themselves. They have a contract with the score of subcontractors and small manufacturers to supply them regularly the parts and components or process according to the specification provided to them and also to procure from the markets. The large firms have limited their role of producing only the main/core parts, delicate work and assembly. This ratio of in-house production is less in Japan than in the US and Korea.

When we look at the research data derived from the questionnaire, we also come to the same conclusion with slight little changes in figures. This leads to the conclusion that the subcontractors have expert skills that the parent company does not possess, the parent company can concentrate in the core area only, the cost of production are low, outsourcing company can respond swiftly in case of changes in the order of output, efficient because of production in small lots, organizational efficient becomes low when the parent company becomes too big and rigid.

Table 3: Future Prospect of the Company

	Future prospects of you company	Percentage
1	To continue the outsourcing relationship as it is just now	37.50
2	To increase the number of parent firms	5.00
3	To change the percentage of subcontractors	5.00
4	To change the contents of an order	25.00
5	To reduce the numbers of parent companies	3.75
6	To reduce the percentage of subcontract work	12.50
7	To give up subcontract work and become an independent co.	11.25
	Total	100.00

Source: Personal Survey, 2007

When asked about the future prospect of their companies, 37.5 percent of the firms replied that they are happy to continue their relationship with the parent company whereas other gave various replies like changing the contents of an order (25%), reduce the subcontract work (12.50%), become independent company (11.25%) etc. Some firms want to increase and others want to reduce the dependency.

Table 4: Future Investment Plan of Outsourcing Companies

			Percentage
1	To bring new equipment	29	48.3
2	Investment for energy saving	27	45.0
3	Investment for technical innovation and research development	26	43.3
4	Investment for saving in general	25	41.7
5	Investment for ability enforcement (branch extension)	18	30.0
6	New enterprise and new product development investment	02	03.3
7	Others (No Plan)	01	01.6
	Total	128	213.2

Source: Personal Survey, 2007

Because of multiple choices the total exceeds 100

The outsourcing companies have to innovate and introduce new techniques and ideas in the business if they have to remain in business. In this sense they must plan to remain competitive in the business. Getting order from the parent companies is the tough job and one has to be very much competitive in price, design, quality, product development etc. Most of the Japanese outsourcing companies have plans to bring new equipment and capability expansion. The above Table shows that they are least concerned with the plan in energy saving investment.

Timely information is a much sought affair by all the firms irrespective of their sizes. But parent company has become more information oriented. They want to receive and disseminate the information within short time to and from all the sources including outsourcing firms. They have asked the small and medium outsourcing firms to install on-line system to cut down the administrative work, quick transfer of information. Under this system the information can be processed, accumulated and retrieved and is connected to remote computers or terminals.

Table 5: Business Relationship with Parent Companies

1	Price is cheap	16
2	Time of delivery is precise	23
3	Technique of the company is superior than parent company	10
4	Technique is superior than other competitors	34
5	Finishing is nice	20
6	Because of capital participation	6
7	Because of personnel exchange programme	1
8	Long year transaction ties	16
9	Gained the trust of the parent company	34
	Total	160

Source: Personal Survey, 2007

Because of multiple choices the total exceeds 100

The business tie-up with the parent companies is utmost important for survival and sustainability in such hyper competitive age. The outsourcing companies replied that they have been able to maintain business relationship with the parent companies just because of their superior technique than their competitors and has gained the trust of the parent company. In Japan personal relationship is widely taken as the foundation of business transaction and progress. Timely delivery and finishing come next after the trust and superior techniques. Almost marginal companies have replied the capital participation and personal exchange programme.

The technical guidance of the parent company has helped the subcontractors in improving their technical standard and this has resulted in an efficient, stable and economic production. They have withstood the test of timely delivery requirements, zero defect products, strictly standard products and competitive costs. They have accepted the continuous demand of price reduction as a norm from parent companies through rationalization in process, machinery, management and upgrading their technology to match with the time and demand. They have carved a special place in an industrial structure of Japan.

In some high tech areas they have excelled than their parent company, but still they are economically feeble and do not have bargaining power. Of course, still they lack the necessary facilities. It is also true that hundred per cent outsourcing companies are not efficient.

Table 6: Difficulties and Problems of Outsourcing firms

			Percentage
1	Getting of Funds	10	16.7
2	Securing of people	43	71.7
3	Threats from newly industrialized economies (NIEs)	2	3.3
4	The Problem of going abroad of parent company	3	5.0
5	Others	2	3.3
	Total	60	100

Source: Personal Survey, 2007

Majority of the firms have opined that getting able, experienced and knowledgeable manpower is one of the most difficult tasks since they are strengthening the public relations activities, maintaining relations with the colleges and universities. They have experienced that young labour do not join small and medium enterprises and very difficulty in procuring engineers. Some firms engaging in small quality type products said that it was difficult to procure traditional artisans and others locally. These small and medium enterprises have been employing mid carrier employees and practicing manpower developing as well. This indicates that the number one problem now a day in the outsourcing business is the technical personnel. Only 16.7 percent of the firms replied the difficulty of getting funds. Five percent of the respondents said the problem of their parent companies going abroad.. But only two firms expressed the competition with the newly industrialized economies (Korea, Taiwan, Hong Kong and Singapore).

Also the shortage of human resources in sales, planning, designing related fields and computer related is more serious in small and medium enterprises than in large enterprises.

Subcontractors producing the widely used products are constantly working towards reducing costs through rationalization and improving their administrative technology. Since the products are becoming more sophisticated and value added, more research in production technology and in other high tech areas needed.

Conclusion:

Outsourcing can lessen the obstacles to small entrepreneurs setting up in business and can help them, once they are established, to survive and flourish. Outsourcing raises industrial efficiency by making for economical use of capital and labour, including economies of scale in individual processes of production.

When we think of all the tiers of economic activities, every one of them is dependent on the other, where small firms play their part in keeping the wheels of the larger ones, turning and supplying the plethora of products or services from tiny parts to sophisticated supplies. Small and medium enterprises are like a cog in the wheel of the large enterprises.

Larger enterprises, if they operate on their own, generally cannot be employment intensive nor create jobs where they are needed. On the other SMEs due to their limited resources, despite being contributive in terms of employment intensity and operability even in diverse locations, cannot generally market or expand to a desired extent. The solution to overcome the twin problem is through outsourcing, which, if properly developed, will create the best of both worlds particularly for developing economies, where creating jobs is an arduous task in the present day world. The lessons from Japan are highly useful for LCDs and the developing world to develop outsourcing as a sustainable foundation for promoting SMEs.

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