Overseas operations of local firms and cross-border management: A case study of Japanese local firms

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This study aims to examine characteristics of the international business of small and medium-sized firms (SMFs) through a case study of Japanese local firms. Here, ‘local firms’ refer to those which have their headquarters outside the major Japanese metropolitan areas such as Tokyo and Osaka. The majority of local firms consist of SMFs. In Japan, 99 percent of firms are SMFs, making up about 70 percent of total employment. In many cases these firms make local industry complexes, or Jiba sangyo in Japanese.

Such local industries in Japan have suffered from a long economic recession and globalization of economic activities. There are, however, some examples of local firms which have been surviving through expanding overseas operations and international business. Some firms have even succeeded in increasing the number of their domestic employees by returning the profits earned overseas into their headquarters in Japan.

Local firms on the island of Shikoku, the smallest island among four major islands in Japan, are not an exception. The glove-related industry in eastern Kagawa and the towel-related industry in Imabari are good examples. Both industries, agglomerated in their respective small regions, can boast of over a hundred-year history and the majority shares of the domestic market based on their advanced knowledge and technology. For decades these two industries have been trying hard to survive in an increasingly competitive world by making goods in large quantity in countries with low labor costs and keeping the functions of value-added product making and research and development in their home-base regions in Shikoku. Since these local firms are small or medium-sized, unlike large firms, top managers themselves frequent their overseas affiliates and customers, and make decisions quickly. Also, locals and foreign-educated relatively young persons are assigned as managers at overseas affiliates. In other words ‘hybrid’ managers in both sides play an important role in their international business operations.

Another potential are leading firms which could be a model for others in the region. Nippura is a good example. This firm, founded in 1969, is located in Miki, a suburban town of Takamatsu, Kagawa. It has developed a specialized technology to make large scale water tanks made from acrylic fibers (resin). The firm has been awarded two Guinness world records. So far, the firm has produced over 300 large water tanks for zoos and aquariums not only in Japan but also for overseas market. Currently, the firm makes up about 70 percent of the world share of aquarium water tanks which are mainly produced in its domestic plants in Kagawa, Okinawa and Hyogo (Kobe).

From now on, such aforementioned “collaborative competition” and “diversity” of related firms can be utilized to make local firms and local industrial complexes more competitive in the contemporary era of ever-increasing globalization and localization. Leading firms will play an important role there through cross-border management not only in terms of the county of operations but also in the types of industry.