Introduction

1. THIS BOOK’S AIM: RELATIVIZING THE JAPANESE HISTORICAL EXPERIENCE

In the past, there were periods when the Japanese economy and companies attracted strong interest from foreign and Japanese observers alike. The peak of this phenomenon lasted from the 1980s into the early 1990s. It is highly probable that too much attention was paid to them at that time and too much merit awarded to Japan. Conversely, it seems likely that too little attention has been paid to the Japanese economy and firms since the late 1990s, due to the decreasing performance of both.

In this way, changes in Japan’s performance have strongly influenced the evaluation of Japanese companies and the economy by scholars as well as practitioners. In particular, such evaluation has almost always been combined with arguments that made reference to a “Japanese style”. Based primarily on the assumption of the uniqueness of the Japanese model, many scholars focused on various aspects of the so-called “Japanese system” in areas such as industrial relations, principles of operation and decision-making, keiretsu grouping, the main bank system, the supplier system, and industrial policy.

In contrast, the favorable performance of the US economy and companies since the 1990s produced many arguments that referred to the characteristics of US companies as the “global standard”, insisting that such a “standard” should be applied to Japan. In other words, it was strongly suggested that Japanese companies should reform themselves radically to approach this standard.

Nevertheless, the “global standard” is, in fact, something that is specific to the United States. In that sense, the argument shares the same root with the arguments that emphasize Japanese uniqueness.
Was Japan so unique and special? Is it desirable for only visible performance to influence the interest in Japan, not to mention its evaluation? These questions motivated me to write this book.

In order to answer these questions, my goal in this book is to relativize the experience of postwar Japan in two particular ways. One way is to relativize Japan in terms of location and the other is to do the same in terms of time.

The first involves finding similarities as well as differences between Japanese industries in comparison to other countries in order to answer the first question posed above. Here, it seems likely that one would find commonalities in many areas. However, in general, these commonalities are not conspicuous because most people take them for granted. On the other hand, differences among societies tend to stand out, drawing the attention of many people. Indeed, it is highly probable that some of what were regarded as uniquely Japanese characteristics can be observed in other countries too. At the same time, some of the things that have not received much attention could also illustrate the important factors that are unique to Japan.

How can we, then, accurately grasp the unique aspects of Japanese companies beyond anecdotes and success stories that focus on presumed national uniqueness? I think that it is important to examine each society through the use of common criteria and consistent viewpoints that could be applied to others. By doing so, we can consider the unique aspects of a specific society within the context of widely shared commonalities. In this book I conduct my analysis by focusing on the intertwining between the market principles and organizational principles – both of which will be described in detail. While this is an attempt to relativize Japanese experiences in terms of location, it also aims to contribute to the international comparative analysis by international scholars and practitioners.

Secondly, in order to relativize postwar Japan’s experiences in terms of time, I examine them over the long term. By doing so, I address the second key question posed earlier. It is very dangerous to evaluate a society only with a short-term perspective. Our understanding of a particular society or an economy in a specific period tends to be influenced by both the preceding as well as the subsequent periods, which raises the importance both of continuities as well as ruptures. Because of this, historical analysis could be
an effective method in the second way that this book seeks to relativize Japan. In particular, historical analysis has the merit of clarifying the process of causation.

Moreover, a particular experience in a specific period could positively or negatively affect the next period: the influence of the past is always complicated. Given that, this book stresses the importance of historical analysis by examining some of the Japanese intermediate goods industries over the long term, from their origins to the period when they peaked in terms of their competitiveness.

2. THIS BOOK’S PERSPECTIVE: THE INTERTWINING BETWEEN THE MARKET AND ORGANIZATIONAL PRINCIPLES

The keywords of this book are “market” and “organization”. They may seem like overly broad and ambiguous concepts, but they are nonetheless the basic concepts necessary to comprehend the capitalist economy and the firms that exist in it. In order to emphasize the long-term processes, I use the concepts of the market principle and the organizational principle instead of market and organization themselves, since the former can depict the change in the research objects and their behaviors better than the latter. These principles are rules and logics that are at work within markets and organizations. In particular, this book uses the concept of the organizational principle in a rather broad sense. That is, I define the organizational principle as that which is used by economic actors in order to control the market mechanism intentionally and actively.

In all the real economies, the market principle and the organizational principle have always been intertwined. This is no exception in Japan. As such, the intertwining between the two principles can be used as a common criterion by which we can relativize the experiences of the Japanese economy and Japanese industries, which is my intention in this book.

Indeed, Takeda Haruhito, a scholar of Japanese economic history, suggests an interesting viewpoint that is similar to that of this book.1 He points out that adjustments by the market mechanism and adjustments by organizations such as firms and non-profit
organizations (NPOs) are not mutually exclusive but can be complementary. Furthermore, he insists that markets and organizations support economic development in tandem. He also emphasizes that, in the history of capitalism, two kinds of non-market adjustment mechanisms have developed. One is the adjustment by firms as organizations and the other is adjustment amongst firms, such as cartels and long-term contractual relationships. He concludes that adjustments by the market and adjustments by various non-market entities have been and are closely intertwined. This argument offers great insights into the research of the Japanese economy system and shares this book’s emphasis.

3. OBJECTS OF ANALYSIS: INTERFIRM RELATIONSHIPS IN INTERMEDIATE PRODUCTS INDUSTRIES

This book examines interfirm relationships within the context of the history of primary intermediate products industries. As Adam Smith stressed a long time ago, the division of labor produces the wealth of each capitalist country, and in turn, economic development. The division of labor within firms increases productivity and helps firms grow. It also increases turnaround production, fostering more specialized operations and products, increasing the overall number of firms. As a result, firms become more interconnected, and the interfirm relationships between suppliers and customers become more important, especially in assembly manufacturing industries which became the leading industries from the late nineteenth century in many advanced countries. Although this explanation is so simple and does not capture the entirety of the complicated phenomena of economies and firms, it is nonetheless persuasive enough to support the legitimacy of research into interfirm relationships.

More importantly, there is another reason why this book focuses on interfirm relationships between suppliers and customers. Let me explain the reason in detail. The interfirm relationship is one of the research topics on which the arguments that focus on Japanese uniqueness have concentrated. The gist of the arguments on Japanese interfirm relationships has tended to be as follows: while
Japan’s interfirm relationships are illustrated by “obligational contractual relationships”, primarily reflecting the organizational principle, those of the United States and some European countries are represented by “arm’s length contractual relationships”, which are highly susceptible to market principles.

Nevertheless, it goes without saying that not all transactions in Japan are based on long-term and continual contracts. In other words, interfirm relationships in Japan follow the market principle as well as the organizational principle. Furthermore, it seems highly likely that both principles are closely intertwined in interfirm relationships.

As such, by revisiting the interfirm relationship from the viewpoint of the combination of the market principle and the organizational principle, we can relativize an important aspect of the history of the Japanese business system and shed light on the way to further revise other existing arguments based on Japanese uniqueness.

At the same time, this book focuses on the interfirm relationships in the context of transactions related to intermediate products such as materials, parts and machines. Many of the previous studies on Japan’s postwar manufacturing industries have mainly concentrated on assembly industries and consumer products industries, such as the design and manufacturing of automobiles, ships, consumer electronic products, and computers. In contrast, there are few studies on the parts and materials industries of Japan. It is most likely that the reason for this trend is that most of postwar Japan’s leading industries were concentrated in assembly industries.

Needless to say, whereas customers of consumer products are primarily individuals, the customers of industrial goods such as intermediate products are firms. Hence, while the marketing of consumer products results in the relationship between firms and individuals, industrial marketing results in the interfirm relationship between supplier firms and customer firms. Consequently, to examine the interfirm relationship in manufacturing industries, the intermediate products industries are an important object of analysis.

According to studies by the International Marketing and Purchasing (IMP) group, a school of European researchers that has accumulated studies on the international marketing of industrial products, industrial markets are often characterized – in contrast to consumer markets – by stability, source loyalty, high costs of
change of partner, power-dependence, and, perhaps most importantly, by long-lasting supplier–customer relationships. These long-lasting supplier–customer relationships tend to develop as a risk reduction strategy and out of the recognition of mutual dependence. The reality, then, of industrial marketing and purchasing is one of exchange processes and adaptive behavior of both parties, which takes place through organizational interaction over time. In sum, the interfirm relationship in industrial products industries is, in general, characterized by a long-term obligational contract that represents the organizational principle.

Therefore, in so far as it relates to the transaction of industrial products, the organizational principle that many scholars have emphasized as a unique aspect of Japanese interfirm relationships is actually common all over the world. It is not an example of Japanese uniqueness at all. Hence, by examining transactions of industrial goods, we can relativize the experiences and characteristics of interfirm relationships in Japan.

Indeed, there are several reasons why a long-term obligational relationship is particularly necessary and very popular in transactions of industrial products. First of all, transactions of industrial products have been practiced between a more limited number of suppliers and customers than those of consumer products. As a result, most suppliers and customers of industrial products maintain a long-lasting relationship with each other.

Secondly, the products themselves are very complicated and the specification and characteristics of the products are always changeable. Thirdly, in industrial marketing, suppliers and customers have a functional interdependence. In particular, suppliers are thoroughly customer-oriented so that they prepare for manufacturing according to customers’ requirements even in the development phase of industrial products. Finally, as a consequence of the second and third reasons, customers and suppliers become interdependent. As a result, even after the transaction ends, the relationship between the customers and suppliers continues.

Furthermore, given this book’s focus on the intertwining between the market principle and the organizational principle, the intermediate products industry is a proper object of analysis. Let me explain this point in detail. As previously described, the supplier–customer relationship tends to be long-lasting and cooperative in
transactions of intermediate products, in contrast to those of consumer products, demonstrating the organizational principle.

On the other hand, in industrial marketing of intermediate goods, both the supplier and the customer are active participants. In particular, whilst customer power is often very high in the industrial market, suppliers can also exercise power over some customers. Thus, the power–dependence relationship between the parties in industrial marketing is usually more symmetrical than the corresponding relationship in consumer goods markets where the supplier has greater power over the individual consumer. As such, customers and suppliers tend to pursue their interests strenuously, often leading to severe conflicts of interests. This illustrates the market principle.

Consequently, it is highly probable that the market principle and the organizational principle are intertwined in transactions of intermediate products, and Japan is no exception. Therefore, with regard to the intertwining of the organizational principle and the market principle, I expect that the Japanese specialty arguments on interfirm relationships can be overcome, thereby relativizing the Japanese history of interfirm relationships.

Specifically, this book will analyze four intermediate products industries: steel, machine tools, semiconductor IC (integrated circuit), and LCD (Liquid Crystal Display) materials industries. In all of these industries, Japanese firms have succeeded in leading the global market. While their market shares have recently been surpassed by several other rival countries, with the exception of the Japanese LCD materials industry, the quality of Japanese products produced by these industries is still high and their technical capabilities are very strong. Furthermore, these four types of intermediate products have been used by an extremely wide variety of Japanese industries, even though the LCD materials industry is rather limited in terms of its range of user industries. In other words, a tremendous number of industries have used these intermediate products in ways that have greatly influenced the competitiveness of the user industries. As a result, these intermediate products support the growth and strong competitiveness of many kinds of user industries. In particular, steel, machine tools and ICs constitute the representative materials, parts and machine industries respectively.
Moreover, until the four industries gained international competitiveness, the products were mainly used by Japanese customers. Therefore, interfirm relationships between Japanese suppliers and customers were important during the earlier period. This is the first reason why this book chooses these industries as the objects of analysis.

Secondly, the fact that these industries are the representatives of Japanese intermediate products industries means that interfirm relationships in the industries also demonstrate the general characteristic of the Japanese interfirm relationships. Therefore, analyzing interfirm relationships in the industries is effective in overcoming the “Japanese uniqueness” arguments on interfirm relationships, enabling the relativizing of the Japanese experience.

Third, as will be examined in detail later, the empirical and historical studies on Japanese interfirm relationships have overwhelmingly concentrated on the so-called supplier system of the automobile industry. Other intermediate products have received little attention thus far. As such, by expanding the analysis to other intermediate goods, the Japanese supplier system can be examined more widely and deeply.

Finally, these industries produce custom products for a few specific customers as well as standard products for all customers. Custom products tend to be closely related to the organizational principle, whereas standard products tend to be related to the market principle. Hence, it seems highly likely that the two principles are intertwined in the transaction of these products.

At the same time, the LCD materials industry stands out from the other three industries. In particular, this is a relatively new industry, given that the LCD industry was not established until the 1990s. Moreover, the Japanese LCD materials industry still leads the global market even now, in contrast to the other three industries. Consequently, by adding the analysis of the interfirm relationship in the Japanese LCD materials industry to this book, the historical experience in the other three intermediate products industries can be relativized. Secondly, as Japanese LCD companies were overtaken by South Korean and Taiwanese LCD companies in the 2000s, Japanese LCD materials firms have begun to conduct frequent transactions with foreign customers. As a result, the transactions were significantly
internationalized early on. Consequently, the internationalized management environment in this industry prevented the interfirm relationship from turning into something that could easily be characterized as “uniquely Japanese”. In this sense, this industry is a relativized object of analysis in terms of both location and time.

Finally, in a similar manner to the machine tool industry, large, small and medium-sized companies have entered the LCD materials industry and companies of each size have substantial market shares respectively, in contrast to the IC and steel industries. As such, we can focus on the interfirm relationships among small and medium-sized firms as well as those among large companies.

This book is composed of four chapters and a conclusion. From Chapter 1 to Chapter 4, the interfirm relationships of steel, machine tools, ICs and LCD materials are analyzed one by one, focusing on how the market principle and the organizational principle work in each and how they have been intertwined historically. The book ends with a conclusion and some implications for future research.

4. ON PREVIOUS STUDIES

The scholarship on Japanese interfirm relationship is extensive and it is not difficult to find outstanding studies within it. Hence, I will begin by reviewing representative works in the existing scholarship, before focusing on the original contributions of this book.

As this book focuses on the interfirm relationship between suppliers and customers, here I will exclude from the review some excellent studies on topics such as business groups, business networks, the main bank system, corporate ownership and corporate governance, although they should be considered as part of the research on interfirm relationships in the broad sense.

A tremendous number of studies on the Japanese supplier system, especially in the postwar period, have been accumulated by Japanese scholars. Their research tends to concentrate on the automobile industry, primarily owing to the strong competitiveness of Japanese automobile companies. For example, see Fujimoto (1997, especially Chapter 4 and Chapter 5); Clark and Fujimoto (1991); Kusumano and Takeishi (1994); Konno (2001); Takeishi (2003); Nobeoka (1996); Fujimoto (1997, especially after Chapter 4 and Chapter 5); Konno (2001). Many scholars outside Japan have
also examined the supplier system in the Japanese automobile industry. For example, see Womack et al. (1990); Helper (1991); Smitka (1991); Helper and Levine (1992); Edwards and Samimi (1997); Lincoln et al. (1998); Sako and Helper (1999); Ahmadjian and Lincoln (2001). These excellent studies depict in detail the characteristics and history of the Japanese supplier system in Japanese automobile companies based on precise empirical analysis, including comparative analysis between Japan and the US.

However, on the whole, these series of studies examine only what they consider to be the uniqueness of the Japanese supplier system. Furthermore, as with the scheme of “voice strategy” and “exit strategy” in Helper and Levine (1992) and Sako and Helper (1999), only dichotomies between the US and Japan tend to be emphasized in these studies. Consequently, in previous studies, the commonalities among different countries, including the relationship between the unique and universal aspects of the Japanese supplier system, have not been sufficiently researched. In short, this type of research has failed to relativize the characteristics and history of the supplier system in the Japanese automobile industry.

There is also a rich scholarship on the interfirm relationships in the history of the Japanese subcontracting system between large assembly companies and small parts and processing companies. The mainstream research on this topic has mainly characterized the Japanese subcontracting system as a dominance–dependence relationship. For example, see Fujita (1941); Fujita (1957); Komiyama (1965); Kobayashi and Ichikawa (1958); Komiyama (1965); Ikeda (1983). Most of them argue that the parent manufacturers in such systems have exploited the smaller up- and downstream firms as risk buffers.

However, with the increase of strong, small and medium-sized enterprises, especially in the automobile-related industry and the electronics industry in Japan since the 1980s, this school of research has become less convincing. Instead, studies that focus on economic efficiency in the context of the subcontracting system emerged and increased their influence during the 1980s and 1990s. For instance, see Asanuma (1983, 1985, 1989, 1992, 1994, 1997); Minato (1984, 1987, 1989, 1992); Kawasaki and McMillan (1987); Asanuma and Kikutani (1992); Nishiguchi (1994); Ueda (1996, 2004a, 2004b); Watanabe (1997).
The most representative studies of this stream of research are those of Asanuma. He has empirically analyzed the relationship between the core assembly firms and peripheral parts makers in the subcontracting network, mainly in the Japanese automobile and electronics industry, attempting to explain Japanese uniqueness through general economic concepts such as economic efficiency. He has noted that the Japanese suppliers and customers are bound to one another through the sharing of assets, such as know-how, technology and the joint pursuit of cost savings, product design and innovation. In so far as they emphasize the importance of using general terms and schemes in order to explain Japanese uniqueness, his works share common ground with this book. Nevertheless, he is overly committed to typologies and pays little attention to historical analysis.

In contrast, Minato and Ueda have empirically analyzed the history of the subcontracting system of Japan, although they also use general economic concepts, such as economic rationality and so on. Nishiguchi (1994) also explores the historical evolution of subcontracting in Japan, using a theory of “strategic dualism”. Watanabe (1997) historically and empirically examines subcontracting in whole machine industries from the perspective of the division of labor within society.

As an academic attempt to explain the Japanese interfirm relationship, there is also the “Intermediary Organization Theory (IOT)”, which is related to network theory. For example, see Imai and Itami (1982, 1984). IOT insists that there are two kinds of criteria to differentiate markets from organizations: the characteristics of decision-making and the relationship amongst the participants of organizations and markets. Viewing markets and organizations as alternative modes of exchange, IOT argues that these modes can coexist within a single organizational form. Furthermore, markets are inclined to absorb the merits of organizations so as to mitigate failures and vice versa. In this respect, the organizations and the markets interpenetrate each other. As a result, many intermediary organizations exist. The viewpoint of interpenetration is one example of how markets and organizations are intertwined. Therefore, the perspective of this book has much in common with that of IOT.
However, this book does not apply IOT to the empirical analyzes of interfirm relationships, given its weaknesses. First, IOT mainly focuses on explaining the differences between the business systems of Japan and the US. Because the business systems of both countries share many commonalities, it is important not only to focus on the difference, but on the similarities as well. Secondly, the interpenetration between markets and organizations involves more than simply the absorption of each other’s merits. Contrary to the insistence of IOT, markets and organizations may unintentionally absorb negative aspects of each other as well. Therefore, interpenetration may have negative outcomes as opposed to the ideal examples of interpenetration that IOT focuses on. Finally, the concept of interpenetration implies changes and adaptations within markets and organizations. Accordingly, IOT, which emphasizes interpenetration, should be able to explain changes in business systems. Nonetheless, IOT seldom pays attention to changes in the business systems and their causes. This is particularly problematic in historical analysis.

Among the research by scholars outside Japan on comprehensive interfirm relationships in Japan, Dore (1983) stands out, even though it is not an empirical piece of research. It points out that transaction costs in market exchange can vary with the patterns of social and economic relationships characterizing different countries. In particular, goodwill trust plays a critical role in interfirm relationships in Japan.13 According to Dore, this type of interfirm relationship may be influenced by Japan’s distinctive cultural features. Sako, who was a graduate student of Dore, followed Dore’s argument, which stressed the importance of cultural features. For example, in a comparative analysis between British and Japanese electronic parts companies, Sako (1992) insists that the Japanese interfirm relationship is characterized by “obligational contractual relations”, whereas the British one is characterized by “arm’s length contractual relations”. In particular, she points out that different kinds of “trust” influence the formation of different modes of transactions. These previous studies, however, overly emphasize cultural features, and, as a result, only pay attention to what they see as Japanese uniqueness – an assumption based on a dichotomous logic. Consequently, they have failed to relativize the Japanese interfirm relationship.
5. THE ORIGINALITY OF THIS BOOK

While this book is, in part, based on this existing scholarship, there are many ways in which it offers original conclusions. First, as pointed out above, most previous studies have not sought to relativize Japanese interfirm relationships. By examining the intertwining of the organizational and market principles in interfirm relationships, this book tries to overcome the weaknesses of the existing studies that have tended to overly focus on organizational principles such as the influence of cultural features.

Secondly, this book attempts to improve on studies on the Japanese supplier system that are based on stereotypes regarding “Japanese uniqueness”. As repeatedly stressed above, the intertwining between the market and organizational principles in the context of interfirm relationships may well constitute a significant international trend. Therefore, the arguments of this book can be placed within a global context and can even offer insights into the studies on businesses in the United States and Europe. Moreover, it will be useful to have a set of sector studies that outline Japanese dynamics in ways that will be recognizable elsewhere.

Third, in contrast to the existing studies that have concentrated on the transaction of auto parts, this book covers a wide range of intermediate products industries, while maintaining a consistent viewpoint. It therefore enables the comparison between several intermediate products industries, raising, in turn, the possibility of generalization. Furthermore, by examining the history of these intermediate industries in terms of time, this book attempts to relativize the occurrences within several industries during a specific period.

Fourth, in terms of firm size, this book covers interfirm relationships within a broader range of firms than previous studies have examined. In particular, the representative assembly companies tend to be large, whereas most of their suppliers are small. As a result, previous studies on the supplier system in the automobile industry and the subcontracting system were concentrated on the relationship between large firms and small firms. In contrast, this book examines the interfirm relationships among large companies as well as those among small companies.
Finally, with regard to research data, I have conducted numerous interviews with key people in the steel, IC and machine tool industries, which has enabled me to access information that cannot be acquired from published materials, including previous studies. It is likely that the present study constitutes a rare example of research that makes use of interviews conducted across several intermediate products industries.

NOTES

2. For example, see Sako (1992).
3. According to Gerlach, Japanese business networks are strongly organized by keiretsu across three types of ties: dispatched directories, equity shareholding and bank borrowing, and more weakly organized in intermediate products trade (Gerlach, 1992, xvii).
4. For example, see Hakansson (1982); Hallen (1986); Turnbull and Valla (1986).
7. Webster (1979, 11–18); Shimada (1990, 21).
8. See Sack (2008) about a survey on the subcontracting and supplier system in Japan and more specifically, see Takeishi (2000) as a survey article on the supplier system in the automobile industry.
10. This attempt by Asanuma is very similar to that of studies by Aoki, for example Aoki (1988; 1990; 1992), which apply game theory to the characteristics of Japanese firms.
11. Kagami (2001) also is an example of economic research on the subcontracting institution in the high economic growth period of Japan.
12. Nakamura (1983) also insists that the Japanese subcontracting system has the merits both of markets and organization.
REFERENCES

In Japanese

Asanuma, Banri (1983). “Torihiki Yoshiki no Sentaku to Koshoryoku [The transaction modes and bargaining power]”, Keizai Ronso (Kyoto University), 131(3).


Introduction

(eds), *Torihiki to Keiyaku no Kokusai Hikaku* [International comparison in transaction and contracts], Tokyo: Sobunsh.


Takeishi, Akira (2003). *Bungyo to Kyoso: Kyoso Yui no Autososingu manejimento* [Division and competition: outsourcing management for competitive advantage], Tokyo: Yuhikaku.


Ueda, Hiroshi (2004b). *Senjiki Nihon no Shitauke Kogyo: Chusho Kigyo to Shitauke Kyoryoku Kogyo Seisaku* [Japan’s subcontracting industries in
The dynamics of interfirm relationships

the war period; small and medium enterprises and policy on subcontracting], Kyoto: Minerva Shobo.

**In English**

Introduction


The dynamics of interfirm relationships