There is great potential for cooperation between Japanese and Indian companies, especially at SME level. The globalization pressures, particularly the ones coming from China, are making Japanese companies ready to break out. Indian companies, including SMEs must look for strategies to develop cooperation and build winning relationships using this opportunity.

As India is going to take prominent place in the world economy, the companies in India are drawing considerable attention. Though Indian companies are yet to become household names such as Ford, Coca-Cola, Toyota, or Sony, there are Indian companies such as Infosys, Reliance, and Tata Steel that have spread their name in significant ways outside India. When one looks at the so-called developed countries, it is clear that a few blue chip conglomerates had played vital roles in taking such countries to the developed stage. For India to develop, at least a few prominent companies or conglomerates must grow tremendously and become not just Indian, but global.

With the spread of globalization, it has become clear that the growth and the sustainability of such big companies depend heavily on how they strategically develop, use, and deal with their partner companies. Such partner companies could be subsidiaries, spin-offs, or third-party companies that provide the parts or services; often they are Small and Medium Size Enterprises, commonly known as SMEs. The industry giants often have thousands of such partner companies. When Sony, the Japanese electronic giant was growing rapidly, at one stage it had close to 5000 suppliers. Same for Sonyís rival Matsushita, the Japanese home electronic giant; it, at one stage had about 6000 suppliers, from around the world.

In order to access the world markets or penetrate certain consumer segments or to simply procure resources at reasonable costs, companies with global mindset must learn how to deal with and manage the SMEs. At the same time, SMEs which intend to grow in the back of globalization must learn how to deal with reputed conglomerates if they are serious about staying in business and developing sustainable growth.

Growth of a giant conglomerate, along with the supporting SMEs means the growth of not just one company, but a whole region and the whole country. Take Toyota; on the heels of Toyota and its large SME supplier base, the whole region around Nagoya City, in Southern Japan, is contributing 10% of Japanís huge GDP.

No SME at present can survive under the immense competitive environment unless they play the rules of globalization. This is why the warming business cooperation between India and Japan is gaining importance. The SMEs in both countries can mutually benefit if concerted efforts are made by both sides to develop fruitful relationships.

SMEs in India and Japan – Strategic View
Since India opened up its economy a few years back, the companies both
large and small began to grow. They play vital roles in domestic economy. The SMEs provide a large number of employment opportunities while big companies provide large outputs of industrial goods and services. Both large and small companies can play a role in global markets. How successfully these large or small companies play in the global economy indicates their measure of competitiveness.

In case of India and Japan, SMEs' share of GDP is about 40-50%, which indicates that they are quite active in both the countries. In the global economy, though, it is quite a different story. India's share of global exports is around 2% while Japan accounts for about 10 times that of India.

While India's share of global exports is low, it is interesting to note that a large percentage of exports, in fact, about 40% of total exports, come from SMEs. For Japanese SMEs, this share is less than 15% of Japan's total exports. Does it mean that Japanese SMEs are less competitive than Indian SMEs? Perhaps the contrary, but it is more complex than that.

Though Indian companies have great potential to compete globally, especially in terms of price, the present most of Indian exports are in low value-added products like textiles, tea, or just raw materials. Highly competitive markets such as US and Japan, makes big barriers for lesser-quality products to enter, even at low price.

When it comes to SMEs, the important factors for the success are:
- Financing
- Innovation Management
- Human Resource Management
- Quality

Financing

While Japan started a well-planned government initiative to address the SME sector way back in 1940s, India is perhaps only beginning to pay serious attention to systematically look at the SME sector. It was only in 1999 that the government of India established an exclusive ministry to provide more attention to the SME sector.

The financing of SMEs, in Japan, was addressed in 1940s with the establishment of Small and Medium Enterprise Agency by the Japanese government. A large percentage of Japanese SMEs relies on formal ways, such as banks or capital markets for financing needs. A recent study in India indicated that only about 8% of Indian SMEs get funding through such formal ways, despite having established Small Industries and Enterprises (SMEs) through such formal ways, despite having established Small Industries and Enterprise (SMEs) Act of 2006.
Emerging Markets

Exhibit I
Large Companies And SMEs in Domestic and Global Economies

Development Bank of India (SIDBI) in 1990.

Innovation Management
With strong competition due to globalization, both domestically and globally, innovation has taken center stage for all companies. A recent McKinsey report found that an overwhelming majority of business executives (over 80%) see innovation as a major competitive strategy. This is particularly important for SMEs because SMEs are less diversified in terms of their product line and services. Despite India having the worldís third largest pool of technologically educated workforce, many SMEs are engaged in adopting foreign technologies instead of innovating on their own. In the rush to develop, China also resorted to the practice of copying foreign brands.

In fact, it is said that Japanese also did this at the beginning of their globalization period, post World War II. Though some people disagree on adopting this practice, history shows that copying of foreign technologies has been in existence for centuries. The problem is not copying but, making new innovations of the adopted technology. This needs various R&D skills and somehow Indian SMEs as a whole, had not been successful doing it on their own. In this regard human resource management and attention to quality play a major role, as discussed in what follows.

Human Resource Management
Though India has a large pool of experts, including Ph.D. holders, in medical, engineering, and IT areas, SMEs in general had not been the place for their employment. One problem for the SMEs in attracting highly skilled employees is the pay. Plus, the expanding outsourcing business in India provides better opportunities for high-skilled workers. Especially, the jobs in R&D have become prominent with foreign companies setting up R&D centers, with higher pay.

Another problem for SMEs in India is the regionalization. SMEs are also located in big cities or close to big cities, where the demand for high-skilled workers are high. In countries like Japan, and also other developed countries, regional areas have sound economies. Even some good research universities are located in regional areas. The SMEs or SME clusters have been developed to use the local skill pools. Japan in particular, has more cultural or family oriented reasons that keep local skill pools employed in local SMEs even though the salaries are lower than that of large companies.

If SMEs can hire and keep highly skilled employees, they would help in innovating new products or adopting new technologies with something unique of their own.

Quality
Michael Porter, the strategy guru, argues that an enterprise can compete in two ways:
- Sell same quality product at lower price, or
- Sell higher quality product at a competitive price.

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Though Indian companies have great potential to compete globally in terms of price, at present, most of Indian exports are in low value-added products, like textiles, tea, or just raw materials. Highly competitive markets such as US and Japan, makes big barriers for less quality products to enter, even at low price.

In fact one good place for India to notice in terms of its SMEs is China. In China too at present the share of SMEs in total exports is about 50-60%, a quite high figure. China also does not have many globally known companies, despite its huge manufacturing based exports. China of course tries to compete on price. But, the recent recalls of Chinese SME products, from food to toothpaste to toys, plus more, indicate that the quality of products is of prime importance. In order to improve quality, China turned to Japan for cooperation. One example is the Asia Food Safety Research Center, a Japanese inspection laboratory in the city of Qingdao set up with the approval of the Chinese authorities.

Sustainability Triangle — Quality is the Key
If one word spells the success of Japanese companies, it is quality. Toyota, singlehandedly became the largest auto maker of the world by competing on quality. Sony, which from the beginning pioneered on quality by following the founder Mr. Moritaís principles, became a household name around the world. If Indian companies have one thing to learn by cooperating with Japanese, it is quality.

But, quality cannot be institutionalized without paying attention to HR and innovation management.
The three pillars of sustainability called Triangle of Sustainability advocates developing quality in line with strong human resource management and innovation management techniques (see Exhibit II).

Japanese companies, both large and small, had been very successful in keeping Triangle of Sustainability as solid as it can be. For big companies, due to their strong financial resources, it would not be difficult to hire skilled employees and come up with innovative products, followed by improved quality by adopting various steps of iKaizen or incremental improvements. iQuality Circle is one element of Triangle of Sustainability that had been widely adopted in large Indian companies. It is said that about 40-50% of best-in-class companies in India have adopted Quality Circles.

How about Japanese SMEs? How do they keep Triangle of Sustainability going? This is where the big Japanese companies play a very critical role by working jointly to get the best out of what an SME can offer.

The legendary multi-tier production system, as practiced by large Japanese companies is well known. The country as a whole had benefited greatly in terms of quality improvements, thanks to this multi-tier system. By cooperating with Tier-I or Tier-II companies, which are often SMEs, the large Japanese companies have been very successful in improving the quality of SME products and thus helping with new innovations in the process.

This tier-based system is now getting diversified and developed into a system called Meshing, thanks to globalization. Accordingly, lower tier companies that were bound to one large company are moving away from relying on one single company. At the same time, large companies are diversifying the suppliers in order to develop competition and get competitive pricing.

This tier system or the rather new meshing system have helped SMEs develop high value-added products that can compete globally. When such products can be combined with sub-products from other SMEs to make higher value products. It is usually done at a higher level company of the Tier, usually a large company, and not an SME.

Indian and Japanese Companies – Cooperation

Despite many cultural links dating back to centuries, the trade relationships between India and Japan have not been very strong. In 2005-06, the bilateral trade between India and Japan was less than US$10 bn. When compared to the trade between China and Japan, which is in the order of US$200 bn, the two countries have a long way to go. Most exports from India to Japan have been low value-added products such as marine products, minerals, textile and tea. Japan, in return, exports machinery, transport equipment and electronic goods. Even in India’s much talked about IT sector, Japan holds a mere 4% of the total IT exports of India. Imports from Japan stood almost twice the exports to Japan from India in other words, a trade imbalance of 2 to 1 in favor of Japan.

The recent warming up of relationships between the two countries, as two free democracies in Asia, have created interest in India towards more Japanese involvement. But, how can Japan involve in India? May be FDI?

According to the data published by the Ministry of Finance of Japan, the FDI inflow to India from Japan in 2006 was little over US$500 mn. While this is good news when compared to the previous year’s FDI, which was in the order of US$250 mn, it is not a big commitment when compared to Japan’s overall FDI of about US$40 bn and FDI in China itself which is about US$4 bn. But, again, this could be good news as it offers more avenues for Japanese to cooperate in India and for Indian companies to cooperate with Japanese companies. The areas that interest the Japanese companies in India are auto sector, environment management sector, and energy sector.

Recently a conference titled IIT Alumni Association, Japan was held for the first time, in Tokyo Japan. The discussions held were mostly on the line of using large skill pool available in India, especially the highly trained graduates of revered IITs.

The cooperation between Indian and Japanese companies can happen at various levels:

Large Japanese Companies

Japanese companies, in general, would like to do it alone. Many such companies are quite conservative. For example, when China was in the process of opening up, Toyota was one of the last companies to enter the Chinese automobile market. Under certain circumstances, a Japanese company may enter into a joint venture, such as the one between Suzuki and Maruti. But, in general, large companies would like to explore the market alone.
Large Japanese companies also like to test the market by tying up with smaller companies. There have been instances of several such cases in the field of IT where large companies such as Fujitsu, NTT Data, and Mitsui tied up with smaller companies in the foreign markets they entered.

**Large Indian Companies**
For large Indian companies, the most coveted area is technical cooperation like the one between Tata Steel and Nippon Steel. Technical cooperation should be used by Indian companies as a means to develop strong Tier relationships or Meshing relationships with their SME partners. This would greatly help increase the overall quality of Indian products to global level, in the long run.

Large companies also must consider recruiting retired Japanese experts who have worked for large Japanese companies. It is said that large conglomerates in Korea and Taiwan hired many retired Japanese experts in developing their electronic industries. Korea in fact succeeded to advance their electronic industry with such strategies to such lengths that it became a menacing challenge to Japanese electronic industry.

**SMEs in India**
SMEs in India can get attention from Japanese companies, if they show some core skills in their respective areas. Many Indian SMEs are into outsourcing from US companies. It is often noticed that US companies use Indian skills to develop products which they sell in Japanese markets at very high prices. This is particularly true in IT industry where US IT companies are engaged in mass-scale outsourcing to Indian companies, both large and small.

Japanese would like to bypass US and go directly to Indian IT companies. This offers a great opportunity for the Indian companies to get the attention of their Japanese counterparts, especially the Japanese SMEs who want to duplicate successful US startups.

**SME’s in Japan**
Though Japan has very highly advanced SMEs, the pressures of globalization haven’t gone unnoticed. The establishment of Meshing kind of relationships among partner companies has compelled many SMEs to move out of Japan. China, Singapore, and recently Vietnam, have become successful in attracting such Japanese SMEs.

While big Japanese companies are used to globalization, the Japanese SMEs are not. One major problem for them is the language. If language barrier can be overcome, Japanese SMEs offer the biggest opportunities for Indian companies both big and small to become global players eventually.

**Foundation for a Solid India Japan Cooperation**
Off late, India is making headlines as an Asian giant that could rival China in global business one day. Often comparisons are made between India and China from different angles. Studies suggest that China’s close economic relationship with Japan has helped it greatly to maintain high growth. In fact, China recently placed Japan as its largest trading partner in place of US. As for India, Japan ranks at number 8 or 9, in terms of both imports and exports.

Off late the bilateral relations between India and Japan are improving considerably at political level. Historically, India has always looked at the English speaking world for its trade. On more basic level, a large number of Indian students prefer to go to Western English-speaking countries to study and then find work. This is one of the major reasons why India and Japan have not developed much business relationship. In a recent survey on the number of foreign students studying in Japan, India was ranked at number 15; China was of course number one and the US was at number 7. This has led Japanese companies to easily hire Chinese students who are fluent in Japanese language and subsequently build relationships with Chinese companies. This is particularly true for SMEs in Japan, which have recently begun to hire many Chinese students graduated from Japanese schools.

**Conclusion**
There is great potential for cooperation between Japanese and Indian companies, especially at SME level. The globalization pressures, particularly the ones coming from China, are making Japanese companies ready to break out. Indian companies, including SMEs must look for strategies to develop cooperation and build winning relationships using this opportunity.