

Investigation of Key Problems Facing Small and Medium sized Enterprises in Japan

日本の中小企業の問題点についての調査研究

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日本の中小企業は戦後の日本経済の発展に寄与してきたが、バブル崩壊以降は厳しい状況が続いている。本調査研究では特に下記の4点についてプラスチック産業を中心にアンケート調査を行い、それを分析することで日本の中小企業の問題点を明確にしなが、海外の事例を参考にし、その対策を探った。

1. 日本の中小企業オーナーと米国のベンチャー企業オーナーとの会社経営に関する考え方について。
2. 中国は、低価格を武器にして日本の中小企業の客先を奪いつつある。日本の中小企業のオーナーは中国対策をどのように考えているのか、また、日本の中小企業の取るべき対策とは何か。
3. 中小企業の創業者平均年齢が50歳を超えており、後継者対策は中小企業にとって大きな問題となっている。日本の中小企業のオーナーは後継者対策に関してどのように考えているのか。
4. 最近、日本でも米国に倣って産学共同の動きがでてきている。日本の中小企業のオーナーは大学に対してどのように考えているのか。

キーワード：中小企業 (SMEs, small and medium sized enterprises)、成功要因 (success factors)、中国問題 (China issues)、後継者問題 (succession issues)、大学と産業との関係 (academic and industry relations)

1. INTRODUCTION

The environment for small and medium-sized enterprises (SMEs) is becoming more severe every year. According to a survey in 2003 by the Japan Small and Medium Enterprise Corporation¹⁾, about 60% of the SME replied that the size of their market in Japan has been declining over the past three years, and will decline further for fiscal 2002. The Japanese Government believes that the growth of SME is essential for the health of the country. While there are many ways that the government tries to support them, the founder-owner-president of an SME must have his own set of values with which to resolve both internal and external issues.

This thesis considers three areas, which strongly affect the actions that the owners take: 1) the factors which they believe can create success; 2) response to global competition, especially from China; and 3) finding a successor to take over the company or taking some other actions when they retire. Item (3) is poorly considered in studies in Japan as compared with financial ones. Yet, there are many owner-presidents who claim that they may be forced to close their companies when they retire because they cannot find suitable

successors. A questionnaire was prepared as the means of learning about their thoughts to the three issues. President-owners of companies in the plastics were used as the sample.

Fresh approaches need to be found which will help the president-owner of a small or medium sized company in finding innovations to compete globally and in finding suitable successors to take over the business. I believe that one way is through having closer ties with a near-by academic institution.

The subject for this thesis was selected as a counterpoint to the commonly accepted belief that Japan would follow the US in supporting high tech ventures. The large foundation of existing small and medium enterprises in Japan can certainly use some of the know-how of companies supported by venture capital. However, instead of letting them disappear as the owners retire, they are a valuable resource as a starting point for new growth and new ventures. It may even be that this is a more efficient and productive way to develop ventures in a "Japanese" rather than "Silicon Valley" way. But that is the subject for further research.

(Note: This is compact and simple version. In actual thesis, there are the details of Questionnaire discussion and other explanation.)

2. INVESTIGATION RESULTS

(1) Success Factors

The replies to the first five questions have been analyzed for the purpose of exploring policy and tendency of the president-owner of SMEs. If the answer is summarized simply, the key of business success is to understand the market. It means to grasp customer's needs. It is required to create new technology by means of contacting a customer. When hire new employee, priority will be given to character. An advice to a future entrepreneur is prior preparation as much as possible.

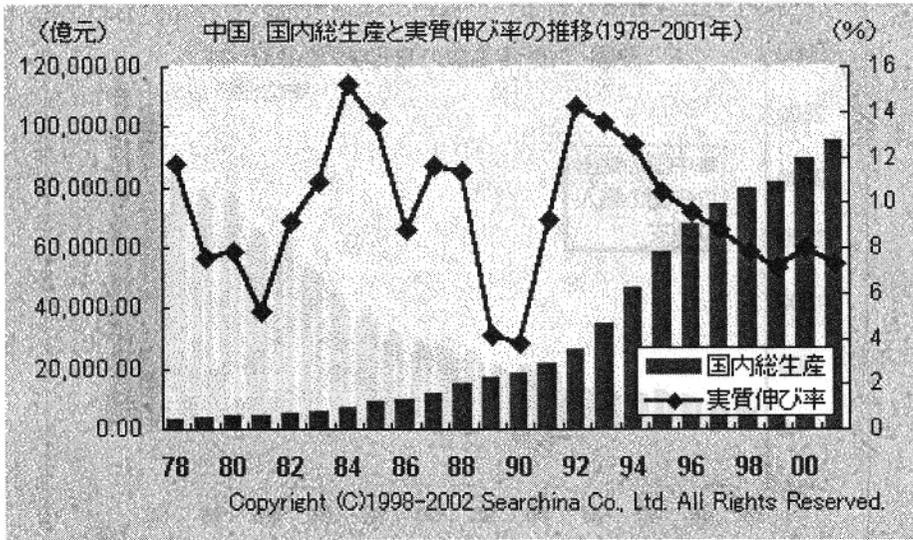
About a comparison of the result between US and Japan, there was no big difference fundamentally. Since the thesis author predicted a big difference at first, it became big surprise. The business environment differs in U.S. and Japan. But when surveyed in a big frame, the keys of a business success are the priority of work and hiring the best employees. These may be universally true.

(2) China Issues

There are four questions relating to the business situation because of China's influence in general, and against SMEs, in particular. Simply put, China is a great threat to SMEs (this was a general feeling, even though the respondents are from a small sector of the plastics industry). Japanese SMEs have lost their competitiveness because of lower costs and an undervalued currency in China.

The below data²⁾ shows how the Chinese economy has grown rapidly. Except for dips in 1981 and 1989-90, the rate has been 8 percent or higher.

Table 1. The trends of GDP and growth rate in China (1978-2001)



Note: 億元…Unit 100million yuan

国内総生産…GDP

実質伸び率…Growth rate

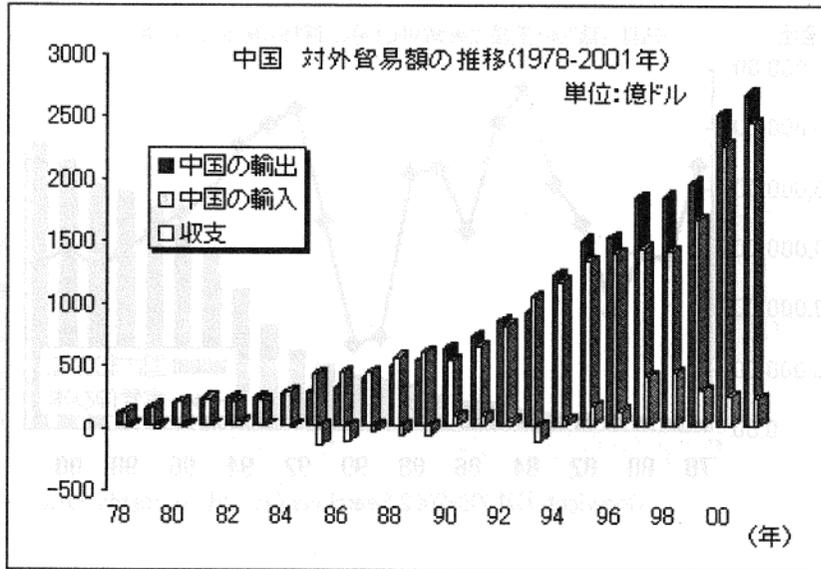
From: Searchina <http://searchina.ne.jp/business/001.html>

There is still a high possibility that China will become a big market for Japan, simply because China is a big country with a large population with increasing purchasing power. The present condition for Japanese SMEs is not favorable due to a variety of issues. At present, there is no favorable point in doing business by SMEs. In practical terms, it is difficult to enter into and manage contracts, and there are many stories of failure to collect payments. Japanese SME strategy is to compete by differentiating their products by developing advanced products and technology, where China is still weak.

The below data⁹⁾ shows that how China is export oriented country and the balance of trade between China and Japan expand more. This means that lots of competitive products which are made in China come to Japan. The competition is more severe than now. How to make differentiated products is the key to compete with China. Basically SME have knowledge and experience to make such a kind of products. But in order to expand more, how SME should do in future? One of the key is to collaborate with academic by government support.

But what does globalization mean for small and medium-sized enterprises? While the world is shrinking through factory transplants and international communications, the business interest for Japanese SMEs seems to still be primarily local. The results of this questionnaire show that the respondents do not feel that the wind of change is coming to them, yet. It is thought that there is no need to being confused by globalization now, but rather that they have to focus on the products and technology which can be discriminated from the competition, both domestic and from overseas.

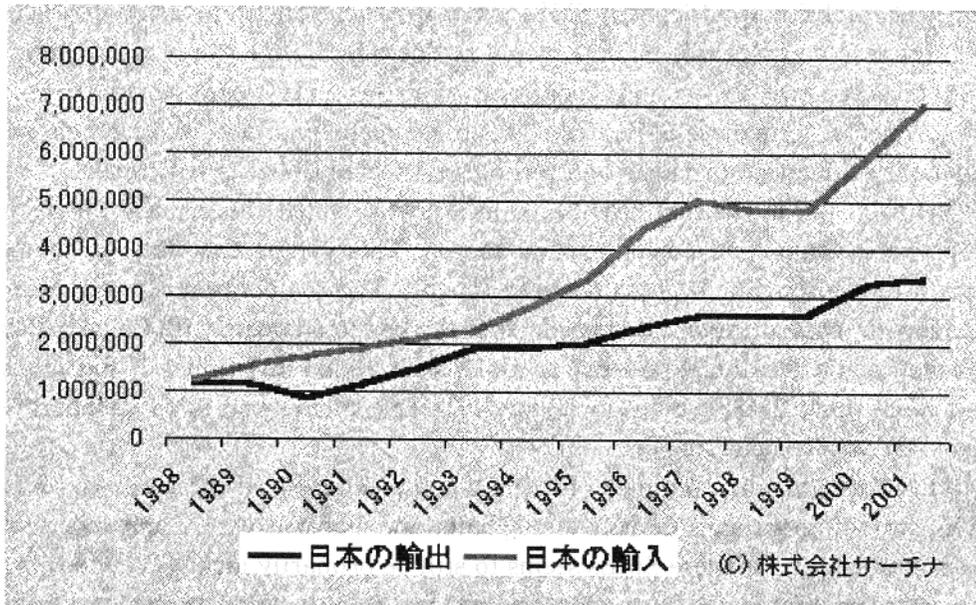
Table 2. The trends of trading overseas in China (1978 - 2001)



Note: 単位：億ドル——Unit 100million US\$
 中国の輸出——Export from China
 中国の輸入——Import to China
 収支——A balance of trade

From: Searchina <http://searchina.ne.jp/business/001.html>

Table 3. The amount of trade between China and Japan (1988 - 2001)
 Unit: 1million Japanese Yen



Note: 日本への輸出——Export from Japan
 日本からの輸入——Import to Japan

From: Searchina <http://searchina.ne.jp/business/001.html>

(3) Succession Issues

The successor problem can be fundamentally classified into the following point.

1. Successor's selection
2. Successor's training
3. Making internal organization structure of the enterprise succession

In the replies to this series of questions, the most difficult step is the selection of a successor. There are lots of reasons. Some respondents said that they understand the selection of a succession is very important and should be kept in mind. But they do not want to disclose the issue to others if they are facing this problem. They are afraid that their customers and suppliers would misunderstand and think they are planning to close the business, or, in the worst case, think they are facing the risk of bankruptcy. The influence of rumor could seriously damage their business. Basically SMEs do not have so many customers and suppliers, so that losing a few would be a disaster.

The difficult points of the successor problem are represented in responses like: "Select a successor from a few candidates" and "Talented people are not enough". At the last, a successor is selected by a president-owner's feeling without any framework. How to improve this situation when there are not enough talented candidates? The below report⁴⁾ discusses the succession problem in the UK. The situation is very similar to that in Japan. The report recommends that government should support SMEs concerning the succession problem and develop a "Business Link" as a center of knowledge and expertise in supporting SME ownership succession.

The report summary is attached as an Appendix to this thesis. The report shows the awareness and support system that should be developed by the SBS (Small business Service agency in UK). This is very useful report and Japanese government should consider it. Also universities have lots of young talented people and who should be involved in this framework.

<http://www.familybizz.net/SBSSME%20Succession%20report.pdf>

One item stands out which may relate to the situation in Japan:

Support for owners in difficult to exit situations that:

- iii) Helps owners make their businesses 'fit for exit' and more saleable.
- iv) Facilitates restructuring that extricates businesses from asset rich situations and enables viable businesses to continue.
- v) Helps owners of unsaleable life style businesses transfer ownership to employees and others with the knowledge and expertise to enable the business to continue.
- vi) Uses succession as an opportunity for innovation and businesses becoming more knowledge based.

(4) Academic and Industry Relation

The results of the questionnaire shows how much University and Small and Medium-sized Enterprises are separated. This is because their situations are completely different and there is no point of contact with each other. The president-owners of SME take a personal risk every day and are fighting in the front line of business. On the other hand, professors live in a very closed environment. It must be emphasized that this is the personal impression of the respondents, and may not be an accurate view of the situation. It may be that the president-owner does not know what support the academic institution or the professor can provide. He may be afraid that information about his business will be found out by competitors or others, or some other unspoken factors.

Professor Yoshihisa Yamamoto of U.S.Stanford University said in the Japan Economic Newspaper⁵⁾ that “ten years ago when I arrived in the U.S., the Japanese support organization had decided to give him research costs but it was delayed due to some trouble in the discussion about intellectual property rights. During that time, he could not pay any money even for telephone and post costs etc. At the university in the U.S., if supply of the operating fund of a laboratory becomes impossible, the professor will be retired automatically. That’s why the professor of universities in U.S.is called a president of SME.”

The situation is changing step by step and president-owners are expecting something from universities, while on the other hand, some universities would like to change by themselves, as in the U.S. There are some projects lead by the government organization called JANBO (Japan Association of New Business incubation Organizations). However, it is just on the way and still needs to expand more. The professor should keep in mind how to make open university and the president-owner of small and medium-sized enterprises keep in mind not only about his own business but also the next generation and university. It is suggested in this thesis that a government organization, such as JANBO, should lead in making a larger framework for change.

As mentioned, Japan is just on the way to collaborate academic and industry. What is the situation of relation between academic and industry in Europe? It should be noted, that several European countries may be better example than the U.S.in this regard. It might give some hints as to how Japan should go in the future. In this thesis, the Europe situation is considered.

It is very instructive to look at the success story of collaboration between SME and universities in the UK. It seems that the UK has faced problems but has plans to resolve them. Below is a case where a university has advised an SME in design and technology. It is such an inspiring example, that parts of the summary are presented below:

<http://www.cs.bath.ac.uk/~anneb/Reducing%20the%20Risk%202000E&PDE.pdf>

Reducing the Risk: A Partnership between Academia and a Small to Medium Enterprise⁶⁾

This paper describes a User-Centred Design approach to new product develop-

ment applied through a partnership between the Department of Design and Technology and a Small to Medium Enterprise (SME), Eze Drive Limited. The partnership enabled the SME to gain access to advice and technology. This provided an opportunity for academic staff and students to apply theoretical models and practices within a live project. This case study highlights the need for such collaboration and demonstrates the potential benefits that can be gained by both parties. The case study illustrates the use of value analysis and quality functional matrix. It shows the way in which the product was reviewed and redesigned ready for pre-production prototyping within one week.

5 THE OUTCOMES

The outcomes of this work were documented in a report and presented to the company. They included:

- one set of 'sketch' models, made of card and foam, that were used to demonstrate the ease of attachment to each control pedal;
- CAD/Engineering drawings of the design solution;
- an exploded view of the design solution;
- a component list;
- a list of appropriate suppliers and subcontractors to supply components.

6 SUMMARY AND CONCLUSION

Universities can assist start-up companies in reducing the risks taken when investing into a new concept. The expertise available through student work and guidance from University staff can contribute substantially to the development of new products where companies lack the resources for professional consultancy in the earliest phases of development. Assisting small companies with further development of ideas to gain evidence about the success of their new product in the market encourages investment from other sources. The rapid turn around of this design project was only possible through close collaboration between stakeholders (i.e. manufacturer, user and designer). The outcome of this project has benefited both the company and a student industrial designer, which has provided a valuable case study teaching material. This paper, and other academic publications derived from this project, have provided a 'technical story' for the company. This can be used as a marketing tool to be shown to potential customers by the company, as the research and publications behind the project increase the credibility of the product. The success of the product developed to date ensured further co-operation between Eze Drive Limited and the Department of Design and Technology in the area of new product development.

This is very good example how to collaborate between academic and industry. Both the SME and the university derived a great benefit form the collaboration. From an academic point of view, it is a very rewarding experience for the students. In this case, university sent technical staff to SME and solved their problem of car parts production.

It seems that Japan can follow this case. As above mentioned, there are lots of things universities can do for technical support and advice to SME who would like to develop something but do not have the resources.

3. SUMMARY

(1) Why We Need a Framework

Through this investigation, found out the lots of problems and some solutions for SMEs. Many of the problems are very serious and threaten their survival. Because each situation is unique, most of the issues must be dealt with by each company in its own way. However, it was found that in countries like the UK, there are programs which assist SMEs in novel ways. The collaboration between academia and SMEs brings benefits to both parties. In order for this to happen, there had to be a framework within which such programs operated. Japan should not assume that the SMEs can resolve their problems alone or create novel programs by themselves.

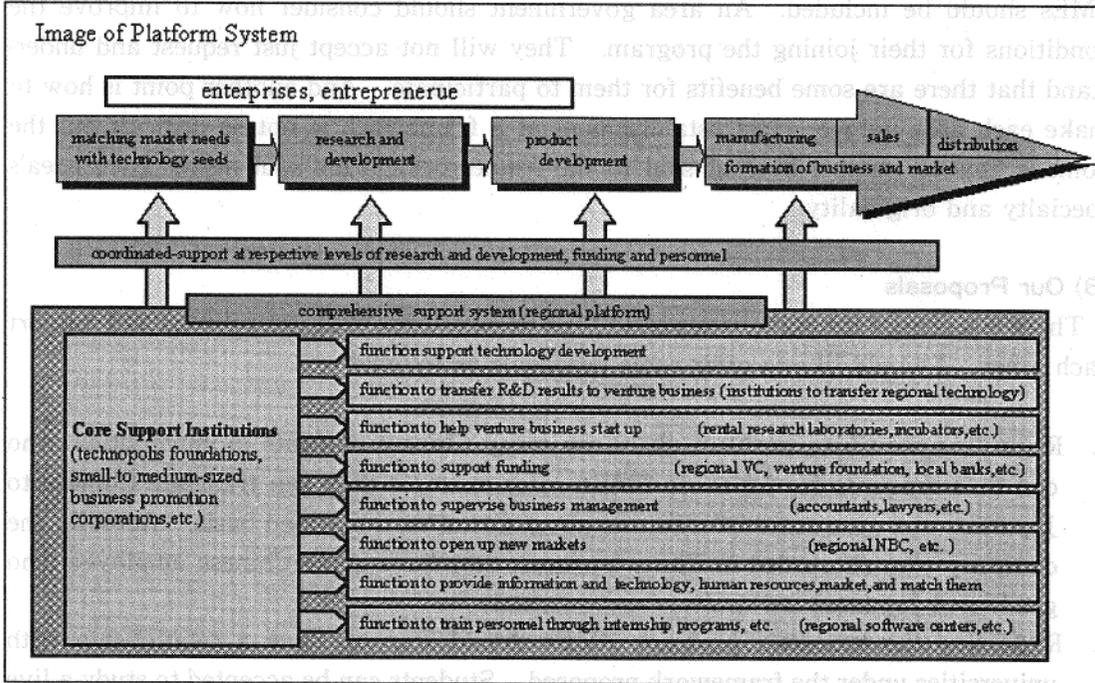
Small medium-sized enterprises have traditionally led the growth of the Japanese economy until now and in future they will be a key factor. In order to solve this problem, I would like to offer to establish the framework among SMEs, Universities and each area's Government. This framework should have each area's originality in order to utilize each area's specialty.

(2) How We Develop a Framework

According to JANBO (Japan Association of New Business Incubation Organizations)⁷⁾, they mentioned a policy framework as follows:

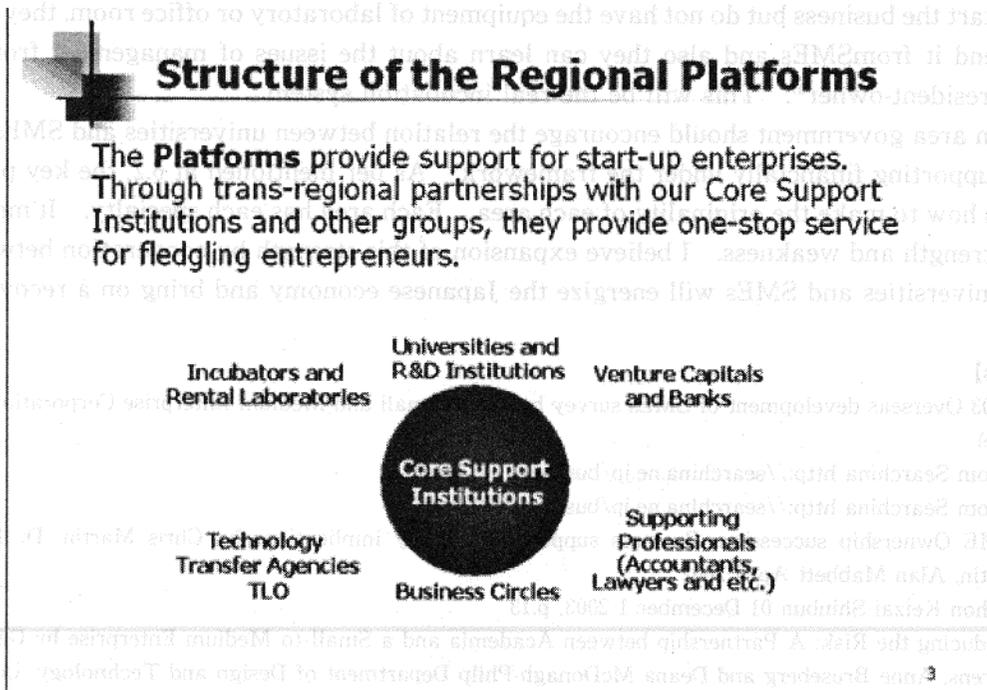
The "new enterprise creation promoting method" was started in February 1999, with the creation of local centers to be supported the Ministry of Economy, Trade and Industry (METI). Utilizing the potential of a local area, an industrial support organization is formed and connected by a network, so that the best resources can be brought together for each project. An industrial support organization, a private supporter, a university, an area government, etc. are connected by a network, and new enterprise creation activities are supported through the core local organization.

Table 4. Image of Platform System



From: Japan Association of New Business Incubation Organizations, The Regional Platforms (<http://www.janbo.gr.jp/index.html>)

Table 5. Structure of the Regional Platforms



From: Japan Association of New Business Incubation Organizations, The Regional Platforms (<http://www.janbo.gr.jp/index.html>)

This can become a basic framework. But the participation of the president-owners of SMEs should be included. An area government should consider how to improve the conditions for their joining the program. They will not accept just request and understand that there are some benefits for them to participate. And another point is how to make each area unique. Just establishment of a framework is not so difficult but the point is how to input a kind of soul to the framework. This soul means each area's specialty and originality.

(3) Our Proposals

There is a chance for universities and SMEs to establish a Win-win relation and support each other. I would like to offer some proposals as follows:

1. Regarding the China problem, there are many Chinese students in universities, who can be a resource for Japanese SMEs. For example they can translate Chinese to Japanese and give some information about China on a salaried basis. Actually the company who succeeded in China business, they have some Chinese employee who graduated Japanese university.
2. Regarding the successor problem, SMEs should start to have a relationship with universities under the framework proposed. Students can be accepted to study a live problem of a SME and can also have the experience of being an apprentice in studying how a SME operates. Also the president-owner has a good chance to feel fresh thoughts of a student. On the other hand, if there are some students who want to start the business but do not have the equipment of laboratory or office room, they can lend it from SMEs and also they can learn about the issues of management from a president-owner⁸⁾. This will be the real incubation system.
3. An area government should encourage the relation between universities and SMEs by supporting financially under the framework. As per mentioned at 6.2, the key point is how to make the originality of each area. Each area has each specialty. It means strength and weakness. I believe expansion of this strength by cooperation between universities and SMEs will energize the Japanese economy and bring on a recovery.

[Notes]

- 1) 2003 Overseas development of SMEs survey by Japan Small and Medium Enterprise Corporation (24 page)
- 2) From Searchina <http://searchina.ne.jp/business/001.html>
- 3) From Searchina <http://searchina.ne.jp/business/001.html>
- 4) SME Ownership succession, Business support and policy implications by Chris Martin, Dr Lynn Martin, Alan Mabbett April 2002
- 5) Nihon Keizai Shinbun 01 December 1 2003, p.13
- 6) Reducing the Risk: A Partnership between Academia and a Small to Medium Enterprise by George Torrens, Anne Bruseberg and Deana McDonagh-Philp Department of Design and Technology, Loughborough University
- 7) Japan Association of New Business Incubation Organizations, The Regional Platforms (<http://www.>

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