Outline of the 2018 White Paper on Small and Medium Enterprises in Japan

Part I of this report analyzes recent trends among small and medium enterprises (SMEs) and also examines labor productivity and ideal approaches to management of SMEs.

Based on the results of the analysis in Part I, Part II analyzes SMEs’ initiatives to improve productivity. Specifically, it discusses a review of business processes, ingenious usage of human resources, utilization of IT, business investment, and M&A-based business reorganization and mergers.

Part I - Developments among SMEs in fiscal 2017

● Current state of SMEs
This chapter analyzes the improving business conditions of SMEs, exemplified by the fact that their ordinary profits are at a record high level in line with the moderate recovery of the Japanese economy.

● Structural analysis of SMEs
This chapter analyzes the number of SMEs in Japan, the number of workers and the current state of value added and changes in these factors among companies which are classified by the number of regular workers and the year of establishment. It indicates that the number of small companies with a long history is declining and that the number of workers is increasing steeply at companies with a short history.

● Labor productivity of SMEs
This chapter classifies changes in the labor productivity of SMEs in the past 10 years based on the growth rates of the number of workers and value added. Around 20% of all SMEs belong to a group of companies that are increasing their value added at a higher rate than the growth rate of the number of workers, thereby improving productivity. It analyzes SMEs’ initiatives to improve productivity so that more enterprises can join this group.

● Ideal approaches to management of SMEs
This chapter analyzes the effects of ideal approaches to management of SMEs on investment behavior and business activities. The analysis shows that many SMEs are under the management of the owner, and that on the positive side, they can be managed from a long-term perspective. However, on the negative side, at those SMEs, it is difficult to hold meetings of the board of directors and formulate management plans.
Part II - Increasingly acute labor shortage and a productivity revolution at SMEs

- **Current state of the increasingly acute labor shortage**
  This chapter provides an overview of the current state of the increasingly acute labor shortage among SMEs and analyzes SMEs’ responses to this situation. It also discusses initiatives to unlock other potential sectors of the labor force, including women and elderly people.

- **Review of business processes as the key to productivity improvement**
  This chapter shows that when implementing such activities as business investment and utilizing IT, it is necessary for SMEs to identify challenges related to their own business processes through a review of in-house processes and to implement improvements that are suited to their own challenges.

- **Labor productivity improvement through ingenious usage of human resources**
  With respect to ingenious usage of human resources intended to continue business operations with a limited labor force, this chapter analyzes the state of initiatives to use outsourcing, human resources development and develop multiple skills and assign workers to multiple roles, which is also becoming popular among non-manufacturers in recent years.

- **Labor productivity improvement through the utilization of IT**
  When SMEs are asked about the challenges in introducing IT, many reply that they do not see the benefits of IT introduction or that they cannot bear the cost. This chapter shows that it is important for local IT makers and sales companies, which SMEs consult regularly, to encourage SMEs to introduce IT.

Moreover, this chapter examines the importance of data linkage between business processes (e.g. linking data between financial accounting and payroll) and inter-company data linkage for enhancing the benefits of utilization of IT.

- **Labor productivity improvement through business investment**
  Business investment by SMEs is increasing moderately as a trend. However, investment has focused mainly on maintenance and upgrades to counteract the aging of facilities and equipment. This chapter indicates the necessity of further promoting investments that will lead to improving productivity, such as investment in labor-saving measures.

- **Labor productivity improvement through M&A-based business reorganization and mergers**
Against the backdrop of the increasing need for business succession, the number of M&As involving SMEs is increasing as a trend. This chapter indicates that M&As provide the acquiring SMEs with an opportunity to improve productivity through the synergy effects with the acquired companies.

This chapter examines the fact that SMEs often utilize financial institutions and other third-party entities to find M&A partners, and therefore it is important to facilitate the smooth matching to promote M&AS.