

2023 White Paper on Small and Medium Enterprises in Japan (Outline)

Part I Trends among SMEs in FY2022

Chapter 1 Trends among SMEs and small businesses

- Recent business conditions have been recovering to the level seen before the COVID-19 outbreak, while some sectors, e.g., accommodations and transportation, continue to face difficult situations.
- Concerning business environments, SMEs have been affected by the impact of a decrease in revenues, etc. due to price hikes and are also facing serious labor shortages. In this situation, the total value of business investment is tending to increase, and this shows that SMEs are focusing on expansion of production capacity, etc. for future investment.

Chapter 2 Drastically-changing external environments and SMEs' efforts

- Amid structural changes, for example the COVID-19 outbreak and carbon neutrality, the ratio of SMEs tackling digitalization and business restructuring is increasing. In parallel with this, a certain number of SMEs consider carbon neutrality as a good business opportunity and are working to ascertain their carbon dioxide emissions and innovation.

Chapter 3 Structural analysis of SMEs' current state

- For SMEs and small businesses, there is a certain relationship between the appropriate passing on of costs to their product/service prices and wage increase, and this passing on of costs is significant for them in securing a fund source for wage increase.
- Moreover, in addition to wage increase as a recent issue, creating a community where young people and women are able to get decent jobs and enjoy their lifestyles will promote population mobility of young people and women from Tokyo, where people have less real disposable income or less free time, to regional areas, and this may contribute to measures against the declining birthrate.

Chapters 4 and 5 SMEs' innovation and business establishment in regional areas

- Companies taking efforts for innovative activities are found to achieve certain effects, for example, differentiation from competitors and expansion of sales channels.

Part 2 SMEs achieving growth by taking good opportunities for change

Chapter 1 Achieving creation of value for growth

- It is important for companies to design and execute strategies for creating value that is different from their competitors' value for the purpose of mid-to-long term corporate growth. Amid this situation, this chapter focuses on "strategies" for creating value and on "managers" as a core for designing and executing the strategies.

- Concerning the strategies, it is important for companies to differentiate themselves from competitors through designing and executing strategies in which ideal approaches to creating value that is different from their competitors' value are reflected, and this may contribute to corporate growth. For this designing and executing of strategies, it is significant to continue to set characteristic targets, including customers and demand, and create value and to tackle challenges, such as trial-and-error processes.

- Concerning the managers, these chapters explain some case examples of companies whose external players play important roles in supporting the companies in designing and executing the strategies and facilitating growth. It is also found that proactive networking among fellow managers is likely to increase managers' motivation for growth.

- The enhancement of internal resources and systems, including human resources and funds, to support managers is a significant element for achieving strategies for creating value. In particular, the formulation of strategies for human resource development and the establishment and strengthening of governance to make use of equity finance are means for further obtaining human resources and funds that contribute to achieving such strategies.

Chapter 2 Creating new leadership

- Business succession and M&A are not only ways for companies to prevent the dissipation of management resources but are also good opportunities for companies to conduct corporate reform through generational changes in managers, and the younger the successors are, the more likely they are to tackle business restructuring, e.g., by providing new products or services.

- Moreover, business successors who are entrusted by their predecessors to make management decisions, etc. are likely to take on new challenges. This helps these successors gain the confidence of the employees, which contributes to improving achievements.

- It is also found that companies' early commitment to the "Post Merger Integration (PMI)" processes before and after the establishment of an M&A contributes to achieving better-than-expected results.

Chapter 3 Shared foundation between SMEs and small businesses

- For encouraging SMEs and small businesses to advance appropriate passing on of costs

to their product/service prices, further enhancement of fair trade for SMEs and small businesses is necessary, including: enhancement of the deployment cycle of a campaign “Price Negotiation Promotion Month and the publication of the results of the follow-up surveys; and improvement of the business environment for subcontractors by providing guidance and advice to large procuring enterprises that are not willing to accept their subcontractors’ appropriate passing-on of costs to their product/service prices.

- Concerning SMEs’ approaches to digitalization, companies are more likely to make progress if they strategically set visions and goals and organize their daily works . Companies that make progress in digitalization tend to take on organization-wide and strategic efforts in addition to proactive commitment by managers. In addition, it is possible for companies to make progress in digitization even if the companies have no highly skilled experts in the digital field.

- SME support organizations are found to have differences in the number of cases they can provide with support and management issues they are able to deal with. Although METI’s efforts for accompanying support for restructuring management capabilities have been expanding across Japan, it is necessary to accumulate know-how on support and improve the performance of these organizations’ counselors in order to further enhance the effect of the support measures.