

# **2023 White Paper on Small Enterprises in Japan (Outline)**

## **Part I Trends among small businesses 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 Small businesses that solve regional issues and achieve sustainable development**

## **Chapter 1 Businesses that support sustainable development of regions (e.g., by solving local issues)**

- The number of companies that are involved in solving regional social issues as part of their business is expected to increase continuously, and local governments have higher expectations for such companies. In sustainably working on efforts for solving local issues as business, companies need to secure income and expenditures and conduct smooth fund raising.
- Companies that consider and present the social significance (social impact) of the business and expand the business to multiple areas tend to see their business turn profitable showing that these companies have been improving business sustainability.
- With regard to resolving local issues, companies and local governments face their own issues, respectively. Some organizations and associations that connect the two sides may play an important role in solving these issues.
- Shopping districts that support regions are increasingly expected to serve not only a commercial function but also a social function as a community or a place where people gather.

## **Chapter 2 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 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.

Note: The "Small enterprises" covered by the White Paper on Small Enterprises in Japan are enterprises with a workforce of 20 or fewer workers (five or fewer workers in the case of commercial trade and services industries) who are employed on a mostly regular basis as defined under Article 2, Paragraph 1 of the Basic Act for Promoting Small Enterprises. In the text of the report, "small enterprises" are referred to as "small businesses" so that readers can easily understand that the term "small enterprises" includes all categories of companies with 20 or fewer workers.