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# WORK ORGANIZATION AND JOB QUALITY OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN JAPAN

by

Yoshio Sato

## **Abstract**

During the last three decades of economic growth in Japan, gaps existing between large and small firms in terms of wages, benefits, etc. have grown smaller and less significant.

The amount and quality of human resources available will become more limited after the size of the Japanese population peaks somewhere around the year 2010.

Satisfaction expressed by both employers and employees at Japanese SMEs is now better than it was in the past, being accentuated by growing popularity of new management philosophy largely unique to SMEs, i. e., individual-, employee-, partnership-, humanity-oriented business philosophies.

## **Key Words**

Japanese small business ; SMFs in Japan ; Entrepreneurship ; Job quality ; wage gaps between large and small firms ; Paradigm shift in Japanese society ; working hours/work week in Japanese SMEs, New management philosophies of Japanese SMEs ; Dual economies in Japan ;

### Summary

1. The Japanese economy has become more mature and is now undergoing a major wave of industrial change, and any hopes for future growth must therefore be based on the creation of new companies and new industries, thus making SMEs the vehicles holding the greatest promise for the future.
2. During the last three decades of economic growth in Japan, gaps existing between large and small firms in terms of wages, benefits, productivity, numbers of holidays, the length of the work week, and the amount of capital investment per employee have grown smaller and less significant.
3. While it is now believed that human resources will serve as the key factor in determining the success or failure of SMEs in Japan, the amount and quality of human resources available will become more limited after the size of the Japanese population peaks somewhere around the year 2010, after which it will begin to decline, and this problem has already begun to make itself felt in that the total number of persons of 18 years of age has already begun to decline.
4. A look at the levels of satisfaction expressed by both employers and employees shows that the quality of work at Japanese SMEs is better now than it was in the past, and this trend has been particularly accentuated by the growing popularity of management philosophies largely unique to owners and operators of small businesses, i. e., individual-oriented, employee-oriented, and partnership-oriented business philosophies.
5. The flexibility shown by the government through the gradual introduction of a series of regulatory actions has served to improve working conditions at SMEs, and an example of this flexibility may be seen in measures which have been implemented to shorten the standard work week over the past ten years, measures which have made room for exceptions motivated by the special needs of SMEs.

## 1. Paradigm shifts in Japanese society

Japan is undergoing a great wave of political, social, and economic change, and the pace and scope of this change has increased dramatically in the 1990s.

- a) *Political corruption*—while for thirty-five years a single conservative party (the Liberal-Democratic Party) has dominated Japanese politics since 1955, in 1990 the political system began to enter a period of unrest which has caused established political parties to lose their social influence with breathtaking rapidity.
- b) *Maturation of the Japanese economy and subsequent economic stagnation*—while in the past a myth prevailed in which everyone believed that the Japanese economy would continue growing without end, virtually all Japanese industries have now reached a state of maturation where such growth is no longer possible. The rising value of the yen is driving many Japanese banks and manufacturers to move many of their operations overseas in both the industrially developed and developing nations. The recession which first began in 1990 has lasted for almost four years now, and it has forced the nation to confront head-on the possibility that manufacturing jobs may continue to move offshore.
- c) *The explosion of the myth of a safe and orderly society*—people are beginning to lose their faith in the belief that Japan is a safe and orderly society. A religious cult has proven that it has the ability to create a crisis of immense proportions, and some young people are involved in similar organizations or activities.

In addition to the above, however, paradigm shifts of various kinds may be seen throughout society : the rules of competition are changing, the *keiretsu* which defined the relations between businesses are crumbling, strategic alliances between businesses have become common, information technology is changing the way we do business, and major corporations are under programs of restructuring in which they are splitting up into groups of medium-sized companies and cutting large numbers of personnel from their work forces.

For these and other reasons, any hopes for future growth must be based on the creation of new companies and new industries.

## **2. Expectations held of new entrepreneurs : an overview**

Against this backdrop of major industrial change, large corporations are showing more signs of sickness than of health, and it is for this reason that people are looking to mid-sized enterprises, new ventures, and smart, active small and mid-sized businesses for signs of future growth.

This is why the expectations being held of entrepreneurs are growing. Yet in spite of these growing expectations the percentage of new businesses with respect to the total number of businesses has been falling since the middle of the 1970s, and the number of business failures is growing, particularly in the manufacturing industries.

This, perhaps, is the reason why a wide variety of strategies designed to promote the creation of new businesses and new business startups have become a focus of discussion. One example of this may be seen in the number of companies offering over-the-counter listings : although in the United States there a total of nearly 5,000 companies listed on the NASDAQ exchange alone, the corresponding total for Japan is limited to a mere 500 or so companies, and this has led market analysts to recognize the importance of making it easier to list over-the-counter shares. Another example may be seen in the strident demands being made to lift restrictions prohibiting companies from charging fees for finding employment for job seekers so that excess personnel from large corporations may find work in new companies and in small and mid-sized businesses.

The problem is that Japan is drowning under a sea of regulations, and these regulations are acting to block the creation of new companies in the form of small and mid-sized businesses, and this is why I believe that the first step which must be taken is to loosen or remove many of these regulations.

One may also see, however, moves to improve the quality of Japanese labor. The population of Japan is expected to reach its peak in the year 2010, after which it will begin to decline, and the total population of persons of eighteen years of age has already begun to do so. It is for these reasons that more small and medium businesses have come to adopt management philosophies which recognize the need for the following :

- Increased recognition of the fact that workers are a precious and irreplaceable

management resource

- To provide instruction to workers to enable them to enjoy their jobs and to enable them to find ways to realize their personal potential through their work
- To create corporate institutions centered around the individual
- To work in a way which will make it possible to ensure customer satisfaction and provide customers with what they need
- To make providing the best possible set of benefits to workers a basic part of management policy
- To create plans whereby the number of holidays may be increased gradually on a year-by-year basis
- To scout for superior personnel by paying higher salary
- To allow workers to take pride and pleasure in their work

The state of mind of the average small business entrepreneur may perhaps be summarized as follows :

- 1) The conscious selection of those paths that lead to worthwhile forms of self-realization, even if such choices lead to high risk
- 2) A high degree of regard for independently owned and managed small and medium-sized businesses
- 3) Management centered around the importance of the individual
- 4) Recognition of the responsibilities of owner-managers
- 5) The possession of a business philosophy that no longer regards size as being of overriding importance
- 6) The belief that small businesses should act to contribute to the creation of new businesses

Small and medium-sized businesses are now entering upon a new stage of development, and we should keep this fact in mind when examining the organization of work and quality of jobs in small and medium-sized enterprises (SMEs).

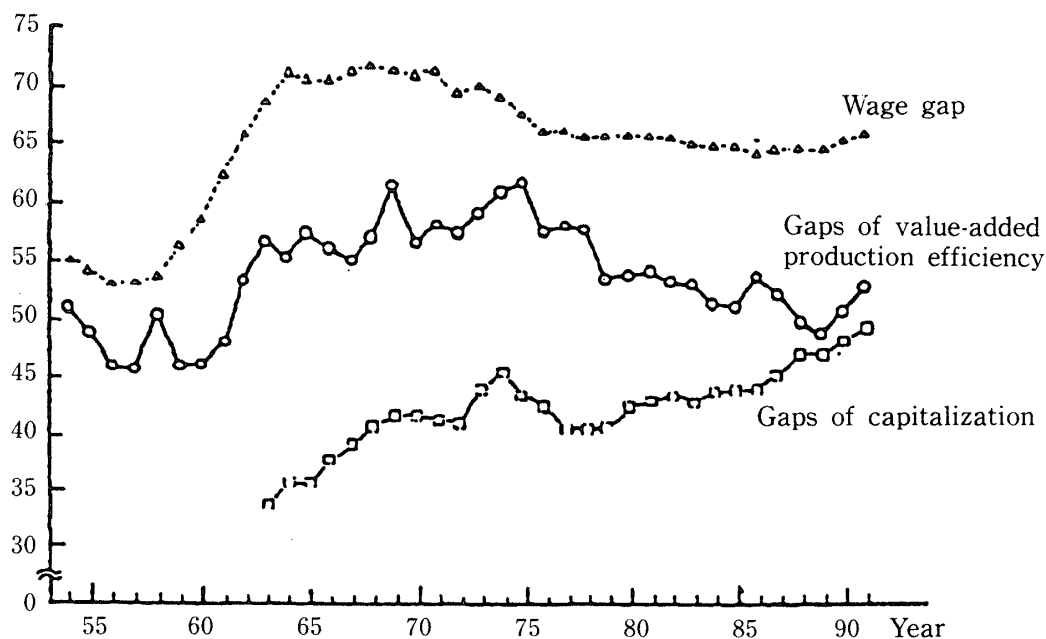
### **3. Theory of gaps existing between businesses of different sizes incorporating both old and new concepts**

For many years now, Japanese analysts have argued that a great many differences and gaps exist between businesses of different sizes. An economic white paper published in 1956 maintained that qualitative differences existed between modern large corporations and traditional small and mid-sized businesses, and

the authors of this paper introduced a theory in which they claimed the Japanese economy consisted of a double-tiered system in which two separate economic sectors existed within the Japanese economy as a whole.

- a) Of course it is true that traditionally employed economic indices do indicate that a gap exists between the wage structures of small and medium-sized businesses and those of large corporations, and a look at the changes in wage levels shown in Figure 1 below shows that :
- 1) This gap between the wage levels found in large corporations and those found in small and mid-sized businesses was sharply reduced over the period from 1956 to 1965...
  - 2) ...and while the gap increased slightly over the following years, it has not only remained at a relatively constant level, but could also be said to be a rather stable one, and if the fact that the total number of eligible workers in Japan is decreasing is taken into consideration, it becomes safe to assume that this trend for this gap in wage levels to decrease will continue.
- b) Similarly, a look at the data in Figure 1 indicating changing levels of productivity in terms of added value shows that :
- 1) While fluctuations have occurred in levels of productivity which may be attributed to the effects of economic growth and recession, although

(Fig. 1) Changes-of the various gaps (large enterprises =100)

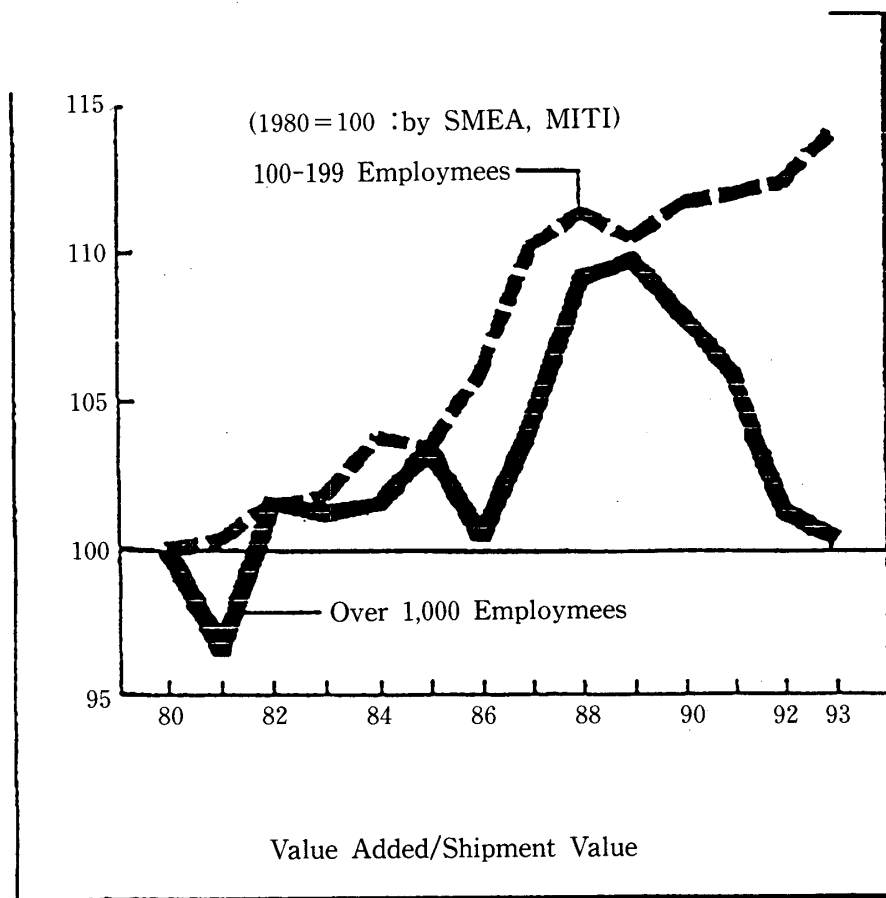


Source : Ministry of International Trade and Industry "Industrial Statistics"

Note : The small and medium enterprises are those with 10 to 299 employees

The large enterprises are those with over 300 employees

(Fig. 2) Gap of Value Added Ratio Big vs MEs



productivity in terms of added value declined continuously up until 1975, productivity has been increasing ever since.

- 2) The statistics used to represent levels of productivity represent levels of productivity in terms of added value for a wide variety of different manufacturers in different industries, and when one remembers that management practices have changed, one sees that it is difficult to accept this figures as accurately representing conditions at all companies.
- 3) Furthermore, a look at changing levels of productivity in terms of added value for large manufacturing corporations with 1,000 or more employees and the corresponding figures for mid-sized businesses with 100—199 employees, one sees that while productivity at large corporations has been falling since 1989, productivity at mid-sized businesses continues to increase. (See Figure 2.)
- c) Finally, a look at differing levels of capital investment per employee shows that :
  - 1) These levels of capital investment continue to decrease



- 2) While the actual amount capital investment taking place may be rather small, the amount and number of necessary investments is increasing
- 3) The amount of capital investments being made on the part of small and mid-sized businesses is capable of exerting a major influence on the well-being of the economy.

When one takes these facts concerning actual differences in wage levels, productivity in terms of added value, and levels of capital investment into consideration, one sees that it safe to conclude that the double-tiered structure of the Japanese economy which was once viewed as a major weakness of that economy no longer exists.

- d) As for differences in the total number of working hours per month and the total number of holidays per year existing between large corporations and small and mid-sized businesses, an examination of Figure 3-6 shows that :

- 1) Ever since the passage of the revised Labor Standards Law in April of 1988, moves to reduce the total number of working hours per month have generally been implemented smoothly at small and mid-sized businesses as well as a large corporations, with what had been in 1988 an average of 165.5 hours of working time per month in companies with 30—99 employees decreasing to a level of 155.0 hours per month by 1993, thus representing a 6.4% decrease over the space of just four years.

The difference between the average number of hours worked in small and mid-sized businesses and the average number of hours worked at large corporations has also been decreasing, with what had been in 1987 a maximum difference of 13.5 hours decreasing to a difference of 6.5 hours in 1993, thus shrinking the difference between large corporations and small and mid-sized businesses to under half of its original level. If one considers that today almost no difference exists between the standard number of hours worked at companies with 30—99 employees (7 hours and 45 minutes) and that at companies with 1,000 or more employees (7 hours and 44 minutes), one sees that the differences in the number of small and mid-sized businesses which have instituted 5-day workweeks and the number of large corporations which have done so is reflected in these figures.

- 2) While the number of hours actually worked (i. e., including overtime) varies in accordance with economic downturns and upswings, the number of hours actually worked is decreasing steadily, so much so that in 1993

the average number of hours worked per month at small and mid-sized businesses employing 30—99 workers fell below 170 hours per month to reach a level of 165.4 hours per month.

The same holds true for differences in the corresponding figures for small and mid-sized businesses and large corporations, with what had been in 1988 a difference of some 9 hours between companies employing 30—99 workers and companies employing 1,000 or more workers falling to a level of roughly 1 hour in 1990 and the following years.

It should be noted, however, that since 1992 many large corporations have undertaken steps to place limits on overtime together with other measures to reduce costs in response to the economic recession, and this rapid decrease in the total number of hours worked has contributed to the creation of a state of affairs in which little further progress can now be seen in reducing the gap between large and small and mid-sized companies.

- 3) While small and mid-sized businesses took longer than large corporations to institute five-day workweeks, in 1988 legal measures were introduced limiting the number of hours in the standard workweek to 46 hours, with this being reduced further to 44 hours in 1991 and 40 hours in 1994,\* and this has caused greater number of small and mid-sized businesses to institute the use of five-day workweeks. Of course small and mid-sized businesses are faced with problems in reducing the number of working hours in terms of factors such as the need to maintain close relations with their clients and suppliers which are difficult for them to overcome on their own, but they continue to work on finding solutions to these problems through the introduction of systems of flexible holidays and through the use of computers and other measures intended to increase operating efficiency.

As a result of these efforts, by 1992 over 80 percent of all small and mid-sized businesses have been able to introduce some form or another of a five-day workweek, and it is safe to assume that the number of companies instituting such measures as a means of reducing the total number of hours worked.

- 4) While a significant gap continues to exist between small and mid-sized businesses and large corporations in terms of the average number of

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\* Note that small and mid-sized businesses will be allowed to continue to use 44-hour workweeks until 1997.

holidays per year per company, with the 1992 average for large corporations with 1,000 or more employees standing at a level of 114.1 days (as compared to 112.3 days in 1991) and the corresponding average for small and mid-sized businesses with 100—999 employees standing at a level of 102.0 days (as compared to 99.4 days in 1991), the average number of holidays per year increases as the size of the company in question decreases, thus indicating that the gap between large corporations and small and mid-sized businesses is decreasing.

Note that this trend can probably be explained by taking note of the fact that while virtually all large corporations have instituted the use of five-day workweeks by now, small and mid-sized businesses are still making progress on this front, thus accounting for the size of the increase in the total number of holidays.

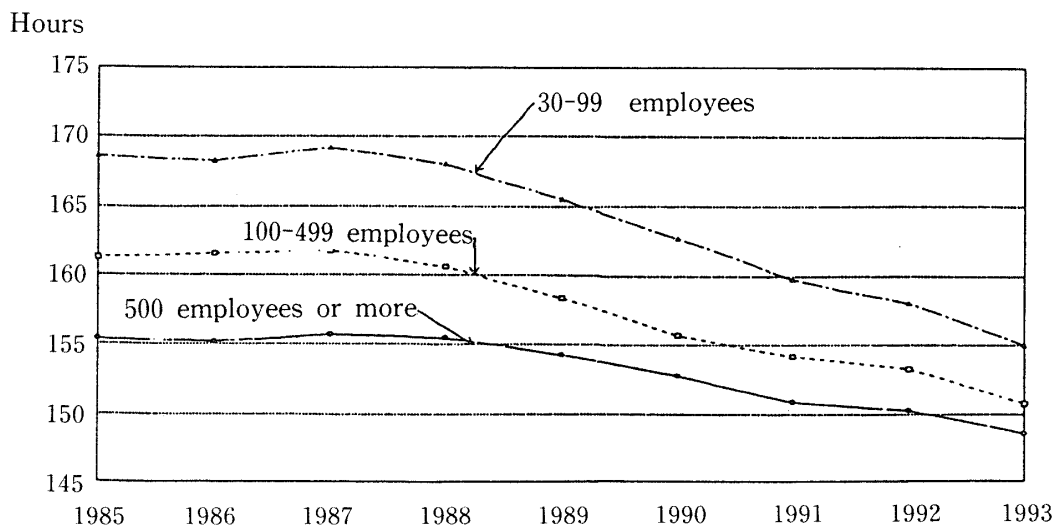
As noted above in Item(3), it is quite probable that the five-day work-week will come to be commonly employed by small and mid-sized businesses, and this in turn should reduce the gap between small and mid-sized businesses and large corporations in terms of the total number of hours worked.

e) The hiring of part-time workers (Figure 7)

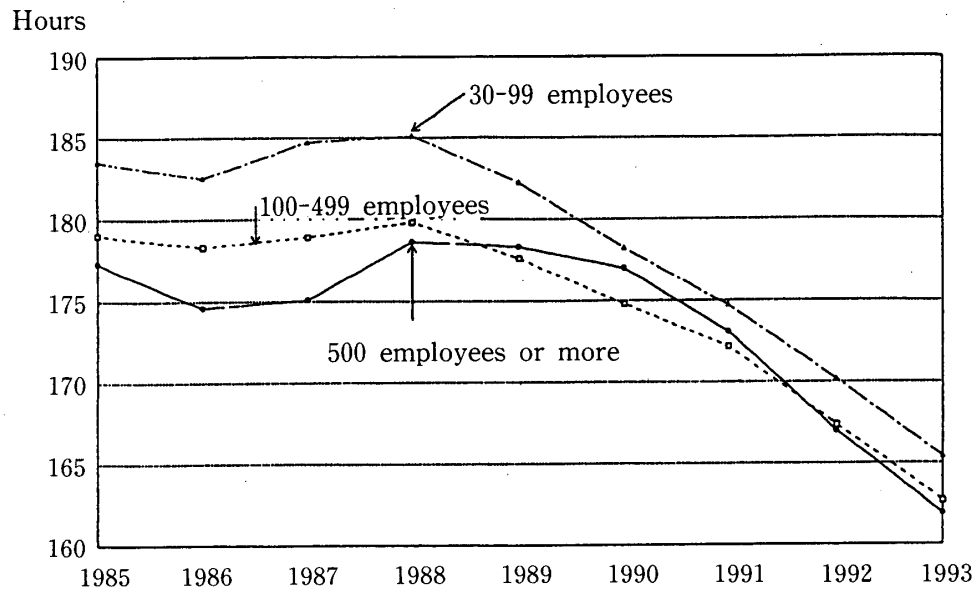
- 1) While part-time workers accounted for no more than roughly 5 percent of the total number of persons employed in the beginning of 1980, in the 1990s they now account for 12 percent of the total workforce, thus making them an indispensable source of business labor.

The combined effects of the increasing number of working women and of

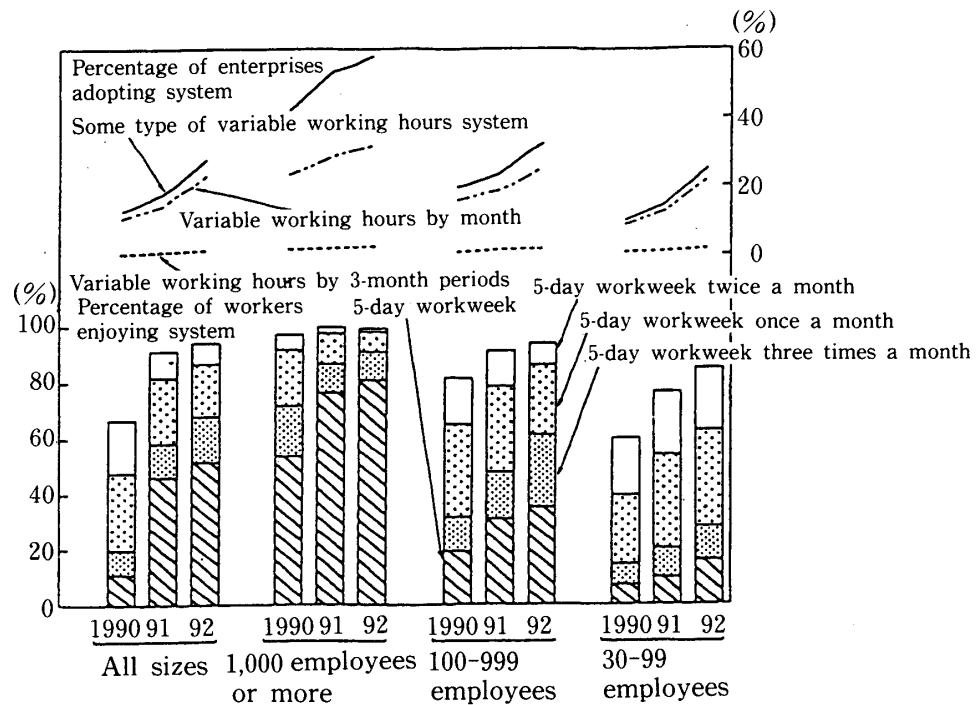
(Fig. 3) Trends in average monthly scheduled working hours per worker by enterprise size



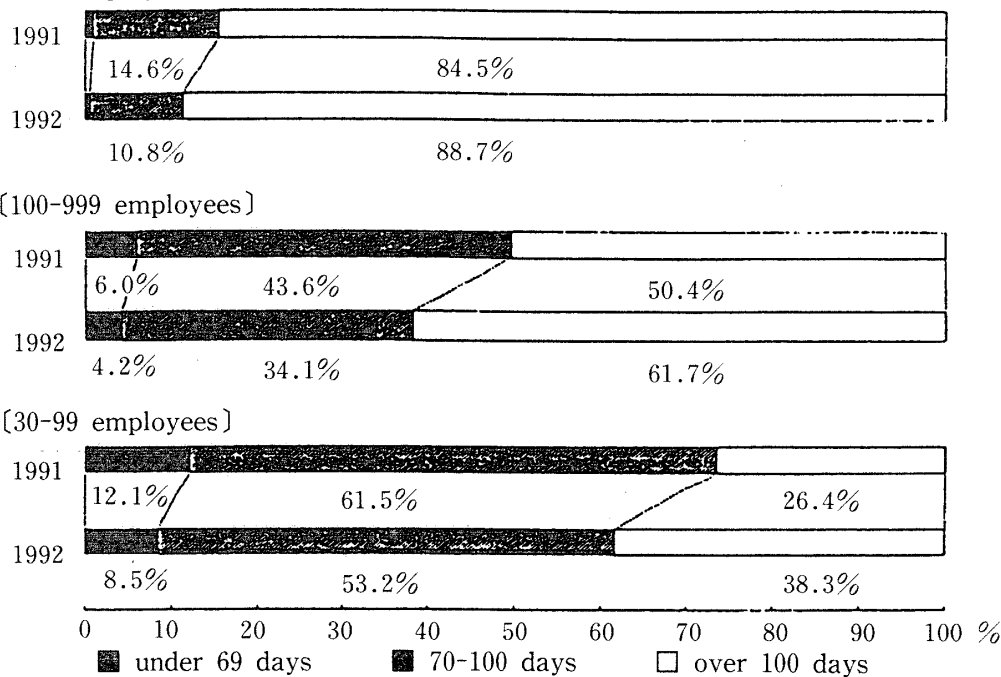
(Fig. 4) Trends in average total monthly working hours per worker by enterprise size



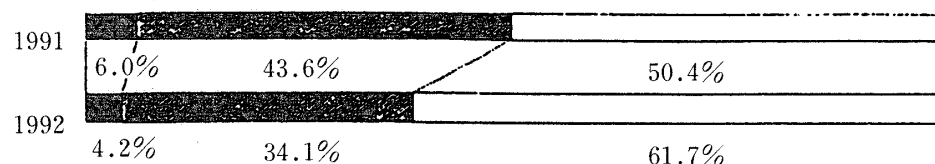
(Fig. 5) Trends in Ratio of Workers by Enterprise Size and Form of 5-day Workweek and in Ratio of Enterprises by Type of Variable Work Schedule system



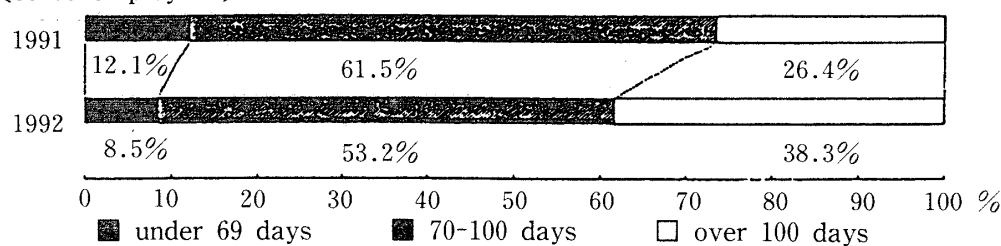
(Fig. 6) Ratio of enterprises by No. of annual holidays by size of enterprise  
[1000 employees or more]



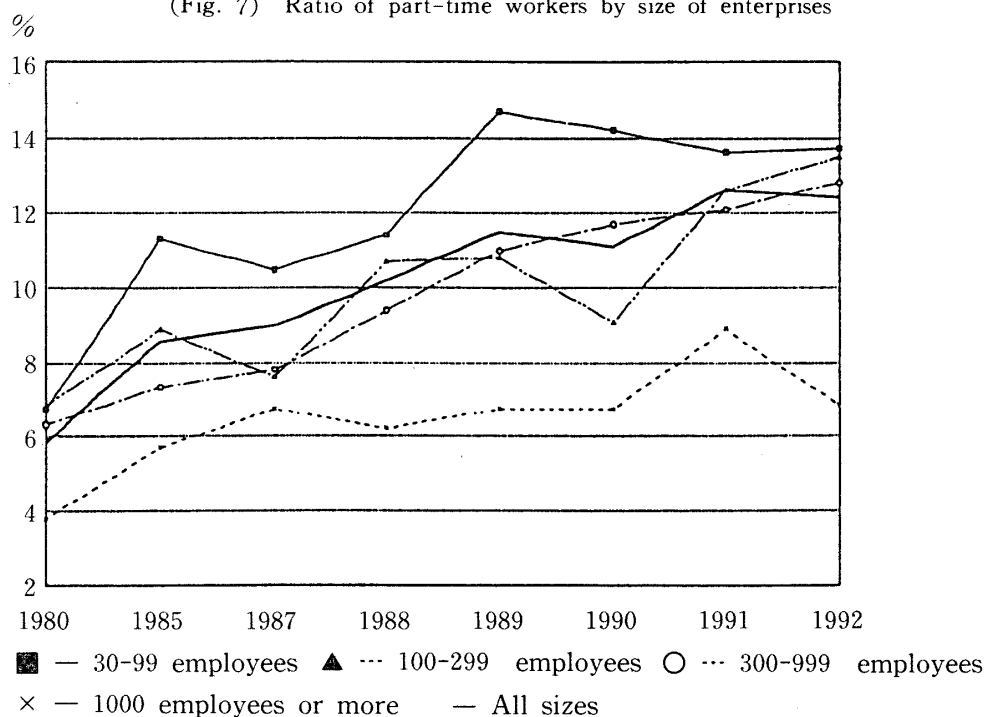
[100-999 employees]



[30-99 employees]



(Fig. 7) Ratio of part-time workers by size of enterprises



\* Sources

Figure 3 : Ministry of Labour, *Monthly Labour Survey*

Figure 4 : Ministry of Labour, *Monthly Labour Survey*

Figure 5 : Ministry of Labour, *General Survey on Wages and Work Schedule System (1994)*

Figure 6 : Ministry of Labour, *General Survey on Wages and Work Schedule System (1994)*

Figure 7 : Ministry of Labour, *Survey on Employment Trends*

the increased efforts which businesses made to hire workers to overcome problems presented by labor shortages occurring during the economic boom of 1988—90 have acted together to increase the total number of persons employed. However, since part-timers have become the target of personnel cuts as part of programs of cost reductions designed to deal with the effects of the recent recession, the percentage of part-time workers with respect to the total number of persons employed has started to decline, with this decline being particularly marked for small businesses with 99 employees or less and large corporations employing 1,000 or more workers.

- 2) The percentage of part-time workers with respect to the total number of persons employed, however, has a tendency to increase in inverse proportion to the size of the company in question, and this trend became even more pronounced in 1988 and in subsequent years. Note that this trend is probably attributable to the fact that small and mid-sized businesses were unable to hire sufficient numbers of college graduates as full-time employees during the boom years of the late 1980s, and they have been forced to make up for these insufficiencies by using part-time workers to make up for these shortages.

#### **4. SME personnel policies : future trends in restructuring and the effective use of human resources**

- a) Human resources as a key factor to the success of small and mid-sized businesses

Human resources comprise the single most important factor in determining whether or not a business is to succeed, and this is particularly true in the case of small and mid-sized businesses which have limited financial resources. An example of this resiliency may be seen in the way in which Japanese SMEs enabled themselves to survive after the 1973 oil crisis by providing themselves with micro-electronics and new materials technologies, and employees at such businesses have consistently risen to meet the challenges posed by new technologies and worked to acquire the skills required to make use of technological innovations. Employee initiative has, without a doubt, been a key factor in contributing to the flexibility and mobility of SMEs in Japan.

The management of SMEs are not subjected to the same level of systematic controls as those of large corporations. An example of this lack of system-

aticity may be seen in the way that the technologies and skills noted above are acquired by workers, that is, in an informal and undocumented manner which contrasts to the way in which larger organizations pay greater attention to collecting documentation as a means of developing standardized procedures embodying the knowledge and skills belonging to the company. Thus while small and medium-sized businesses do often seem to possess highly skilled workers, the competitiveness of such business very often relies heavily on individual personnel.

In these times when the international economy is subject to unrest and the domestic economy is suffering the effects of a recession, Japanese SMEs have been working to change their organizational goals as a part of a process of gradual adaptation. As noted above, small and medium-sized businesses often increase their competitiveness by developing innovative new products and services, by developing superior-quality products, and by searching for other ways of providing increased added value. These businesses now place a greater emphasis on the quality rather than the quantity of production, and intelligence and creativity have proven to be more important in improving quality than dedication and effort alone. Note that as the goals of a given organization change, personnel policies, business strategies, and other policies must also change so that these goals may be met.

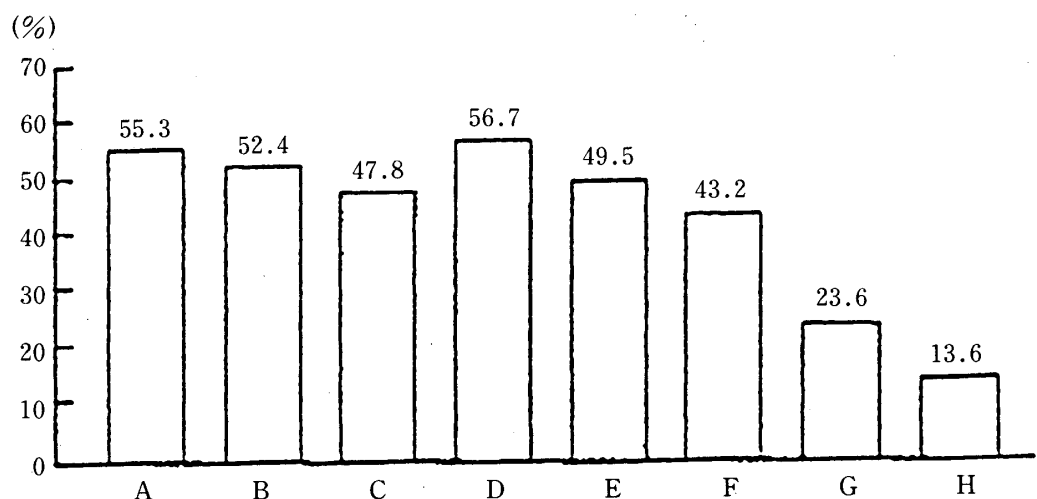
b) Restructuring and changes in the work ethic

The Japanese work ethic has also been changing, with this change being particularly pronounced amongst younger workers. The loyalty to one's company which served as the driving force behind tremendous increases in productivity during the years of rapid economic growth has become a thing of the past, and the Japanese worker of today now seems to be more concerned with seeking better ways of life and finding job satisfaction than with remaining dedicated to a single company. Recent surveys show that more than 70 percent of all young workers in their 20s would choose to switch jobs if they believed that they would be given a greater opportunity to realize their abilities, and surveys such as these make it clear not only that the company is not the first concern of such workers but also that the way in which people work changes as the needs of the everyday worker become more diverse. Young people today are looking to find a balance between their work and their private lives, and thus while companies may be able to serve as a forum for self-realization for some, for

others they remain nothing more than a tool to be used to ensure a richer family life.

However, the restructuring which has recently taken place may well have had the effect of increasing the psychological attachment which workers feel towards their companies. Even the largest of companies and industries have been subjected to levels of economic stress which have forced them to transfer or terminate employees who had formerly believed that their jobs were guaranteed for life. The degree of turnover is said to be lower the smaller the size of the company, and this may well have contributed to a change in the attitude of workers toward their companies. Finally, it

(Figure 8) Advantages of working at a small or mid-sized company (M. A.)



Sample: 7,000

Rate of return: 26.6%

- A Easier to understand the importance of one's own work to the performance of the company as a whole
  - B Employees are more often granted authority to make decisions about their own work
  - C One's ideas are more likely to be accepted
  - D Enables one to work where one wishes to
  - E Easier to form close personal relationships with other workers
  - F Easier to find a home close to one's place of work
  - G Easier to maintain a close relationship with local communities
  - H Relatively easy to change one's place of work
- A-C Realization of personal potential

The above data were obtained from a survey entitled *Survey of problems and current conditions in the workplace* issued in December of 1993 by the Small and Medium Enterprise Agency

Source : 1994 White Paper on Small and Mid-Sized Businesses



should be noted that workers have been forced to abandon the belief that company loyalty and hard work alone are enough to guarantee security and caring on the part of the company.

None of this means, however, that Japanese are no longer able or willing to work, and in fact workers even seem willing to accept more severe demands on their time and abilities than they did before. Figure 8 shows the results of a survey asking employees of small and medium-sized companies what they believe to be the benefits of working for SMEs, and a look at the data presented therein shows that what workers most want from their jobs is the ability to work on their own and to realize their own potential through professional commitment.

c) Quality of human resources and quality of work

It is a widely recognized fact that small and medium-sized businesses must have quality human resources in order to survive in a competitive environment, yet the reality of everyday life often makes it impossible for such businesses to acquire the kind of personnel that they need. Some of the obstacles to doing so consist of the poor image which small and medium-sized businesses have in the public mind, lower rates of compensation, higher frequency of bankruptcy, and a variety of other factors. Yet even though the Japanese economy is in a recession, SMEs have a greater need for more workers than do large corporations (Table 1), and many of these businesses actually do want to hire the best managers, engineers,

Table 1 : Comparison of plans for the hiring of new college graduates graduating in March 1993 grouped by numbers of employees (rate of increase over previous year)

Units : percent

	College graduates		High school graduates	
	1993 graduates	1992 graduates	1993 graduates	1992 graduates
99 or less	14.6	25.7	2.7	17.6
100 - 299	5.4	12.3	-5.3	10.2
300 - 499	1.8	8.5	-10.5	9.4
500 - 999	-3.9	7.2	-12.4	9.8
1,000 or more	-14.6	0.1	-15.1	4.6

The above data were taken from July 1992 figures published by the Ministry of Labor

Source : 1993 White Paper on Small and Mid-Sized Businesses

and skilled workers available.

As one might expect, the problems faced by small and medium-sized businesses in trying to increase their competitiveness are closely linked with the problems they face in trying to improve the quality and quantity of personnel in terms of human resources. Obtaining skilled personnel makes it possible to build a successful business, and building a successful business makes it possible to obtain more skilled personnel, which in turns leads to greater levels of success. A problem remains, however, in that companies must provide incentives to motivate their workers and reinvent themselves while working under their existing management structures in order to get this cycle going.

One example of a practice which has recently been adopted by a wide range of small and medium-sized companies is the practice of making compensation contingent on ability or performance. While this is already a common practice amongst companies in America and Europe and amongst large corporations in Japan, it remains a relatively recent innovation for many small businesses in Japan. The objective of systems of compensation such as these is, of course, to make the most effective possible use of available human resources.

In those SMEs where great emphasis is placed on the ability to be creative and original, individuals as well as groups are often awarded for their abilities. Many other companies also adopt relatively flat management structures so as to decrease the number of managers and increase the number of workers who must act on their own initiative to respond to challenges with which they are presented in the course of their day-to-day work. Note that steps such as these are generally accompanied by changes in the quality of the work assigned to employees.

The next question which must then be answered is what quality of work must be provided to satisfy the desires of these new types of workers and to meet the needs of small and medium-sized businesses in the 21st century. One possible answer could well be that found by the Research Institute of Japan Small Business Corporation in a 1989 survey conducted against a large number of highly developed SMEs, in which the businesses acting as respondents in the survey reported that they found three elements of the work environment to act as critical factors in providing motivation for their employees : independence in the form of freedom to perform one's work without outside interference, fairness in the form of impartial evaluations and just compensation for actual performance, and openness in

the form of the unrestricted sharing of information between management and employees. Note that the results of this survey showed that those companies with the highest levels of employee motivation and the best records in terms of speed and accuracy proved to be those same companies offering the greatest levels of independence, fairness, and openness.

d) Future trends in the management of small businesses and the utilization of human resources

Table 2 shows a summary of the directions in which the management of small and medium-sized businesses will develop and the approaches which will be taken in the management of personnel. As noted above, small businesses of the future will be required not simply to produce more products but rather to produce better ones, and the goals of such businesses must be set in recognition of the need to satisfy customers' needs for quality in stead of quantity alone. And since companies will be forced to encourage innovation in order to meet these goals, they will be able to do so only if they display a tolerance for differences in the values and talents of their employees.

Younger Japanese workers will adopt new sets of values and more westernized attitudes towards their work in the future, and they will be more individualistic and place a greater stress on the need to realize their own potential. It will no longer be possible to rely on the behavior of such workers to be ruled by their loyalty to the organization, nor will it be possible to count on them identifying their own personal pride with the success or failure of the company which employs them. They will instead be committed to their own jobs and professions, and they will take pride in performing their own specialized types of work.

To encourage innovation, SMEs must learn to expect creativity and performance rather than simple diligence and hard work from their employees. Although independence was often regarded in the past as something which might serve as a barrier to the effective operation of a group-oriented organization, SMEs must now learn to welcome the ideas which are born from specialized knowledge, experience, and skills belonging to individual workers.

Finally, it should be noted that a fresh examination should be made of the strategies used to motivate workers so as to modify these strategies in accordance with changing values and organizational goals. It is our belief that companies should view their employees as complete individuals who

have lives both inside and outside of the workplace and that they should recognize that each of their employees may lead different lives and have different networks of family and friends outside of the work environment. Companies should also recognize that innovative ideas, new products, and new markets are often born as the result of stimulations to which people are subjected in their private lives, and they should recognize that this is even more true in mature economies. In other words, companies should encourage their employees to take place in private as well as work-related activities so that they may thereby stimulate their minds and realize their own personal potential.

Table 2 : Future trends in the utilization and mobilization of human resources

Organizational Approach	Past & Present	Future
Goal of organization Emphasis of organization	<ul style="list-style-type: none"> <li>• Greater quantity</li> <li>• Sharing of common values</li> </ul>	<ul style="list-style-type: none"> <li>• Better quality</li> <li>• Tolerance of different values</li> </ul>
Employee values Type of behavior Work ethic  Type of commitment Source of pride Motivation	<ul style="list-style-type: none"> <li>• Collectivity</li> <li>• To work for the sake of the company</li> <li>• Commitment to company</li> <li>• Pride in company</li> <li>• Satisfaction of basic needs</li> </ul>	<ul style="list-style-type: none"> <li>• Individuality</li> <li>• To work for one's own sake</li> <li>• Commitment to one's self</li> <li>• Pride in one's own job</li> <li>• Realization of one's own potential</li> </ul>
Employee behavior Expected behavior Basic motivation	<ul style="list-style-type: none"> <li>• Hard work</li> <li>• Membership in group</li> </ul>	<ul style="list-style-type: none"> <li>• Creativity</li> <li>• Individual freedom</li> </ul>
Motivational strategies View of employees  Types of management  Key factors	<ul style="list-style-type: none"> <li>• Workers, laborers</li> <li>• Life-long employment</li> <li>• Compensation based on age or length of service</li> <li>• Concern and caring for employees</li> </ul>	<ul style="list-style-type: none"> <li>• People with lives outside of their jobs</li> <li>• Flexible employment</li> <li>• Compensation based on performance or ability</li> <li>• Independence, fairness, and openness</li> </ul>

Research Institute of Japan Small Business Corporation(1989). A study of motivation among small business employees : Activation of human resources at advanced enterprises, Vol.89-9, Japan Small Business Corporation, Tokyo.

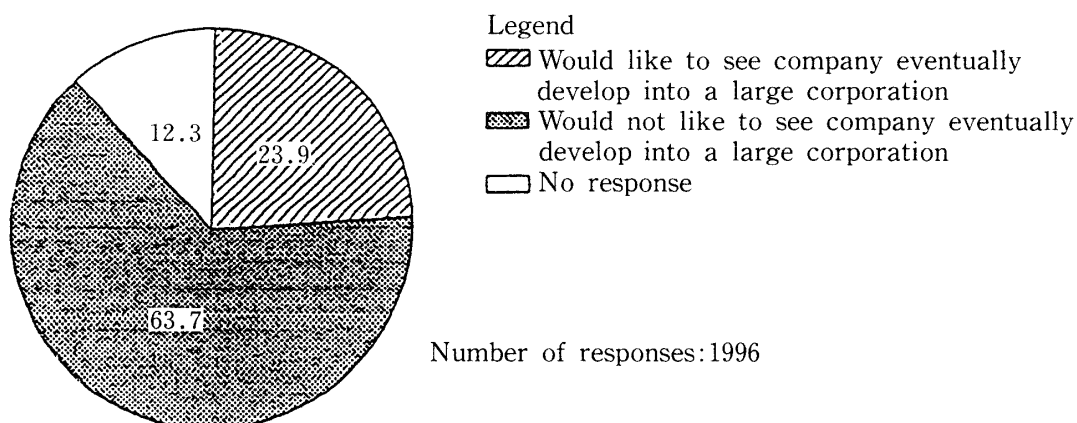
The policies of lifetime employment and tenure-or age-based pay scales which have been regarded as being characteristic of Japanese-style management may be good tools in times of steady economic growth, but they must now be replaced in part or in whole by policies in which pay is awarded on the basis of ability and in which employees are given more flexibility in choosing their jobs so that they can choose jobs which meet their own talents and needs. Finally, in order to allow both individuals and organizations to develop, employees must be granted greater levels of independence and provided with a fair and open work environment so that they may improve the quality of their work.

When one considers that more than 80 percent of the Japanese work force is employed in small and medium-sized businesses, one sees that it is these companies which must act to provide a forum in which these workers can not only develop and realize their own potential, but also continue to produce better products and services.

## 5. The management philosophies of managers of small and mid-sized businesses and the degree to which they are satisfied with the management of their companies

In October of 1993, the Japan Small Business Research Institute conducted a survey in the form of questionnaires mailed to managers of small and mid-sized businesses throughout Japan and in response to these mailings the SBRI received a total of some 1,996 responses.

(Figure 9) Would you like to see your company develop into a large corporation?



The chart above was compiled from data presented in the October 1993 *Survey on owners and operators of small and mid-sized businesses and on support in creating new businesses* conducted by the Japan Small Business Research Institute

Here I would like to use the results of this survey to demonstrate how managers of SMEs show pride and confidence in their work, and to thereby show that the companies being run by such managers have been successful in providing their employees with a satisfying and fulfilling work environment.

a) Views on being a small or medium-sized business

- 1) *Managers of small and medium-sized businesses with no wish to see their company develop into a large corporation*—In response to a survey question which asked respondents if they would like to see their company develop into a large corporation, fully 63.7 percent of all managers answered 'no'. (See Figure 9.) While the reason for this high percentage of negative answers lies in the fact that a half of the respondents answering 'no' were giving reasons such as 'would rather be a good company rather than a big one' or 'would rather be the only company working in a limited area than the number-one company working in a broader area', and machinery, metals, and new service companies were the types of companies which gave reasons such as these most often.
- 2) *The shift from an existence as a company to be pitied to that of a small-scale large corporation*—During the period before the beginning of rapid economic growth, the differences between SMEs and large corporations in terms of wage levels, productivity in terms of added value, levels of capital investment, and a host of other factors were larger than they are today, and the fact that wages at SMEs were much lower than those at large corporations coupled with the fact that working conditions at such companies were miserable contributed to a state of affairs in which SMEs were looked upon as companies to be pitied.

In the past, many of the people who worked as managers in small businesses were employees in those same businesses, and many cases existed of people who acquired skills or knowledge at their previous jobs and started companies on their own in an attempt to increase their incomes. However, beginning in the 1970s, a number of SMEs have appeared on the scene which have used their own advanced technological prowess to develop new products, and the managers of these new SMEs often tend to be people who have majored in science or engineering in college or who have left large corporations to start new businesses of their own. (Seki, 1993)

As noted above, the gaps between large corporations and SMEs are shrinking, and when examined in terms of added value, small businesses

now provide greater added value in their products than do large corporations, and in recent years there has also appeared on the scene one 'small-scale large corporation' working in a specialized and technical field which has gone so far as to capture over a 70 percent share of the total world market for its products. While the total amount of sales at companies such as these may be relatively low, the profit margins are even higher than those at large corporations.

b) The appearance of new types of SMEs

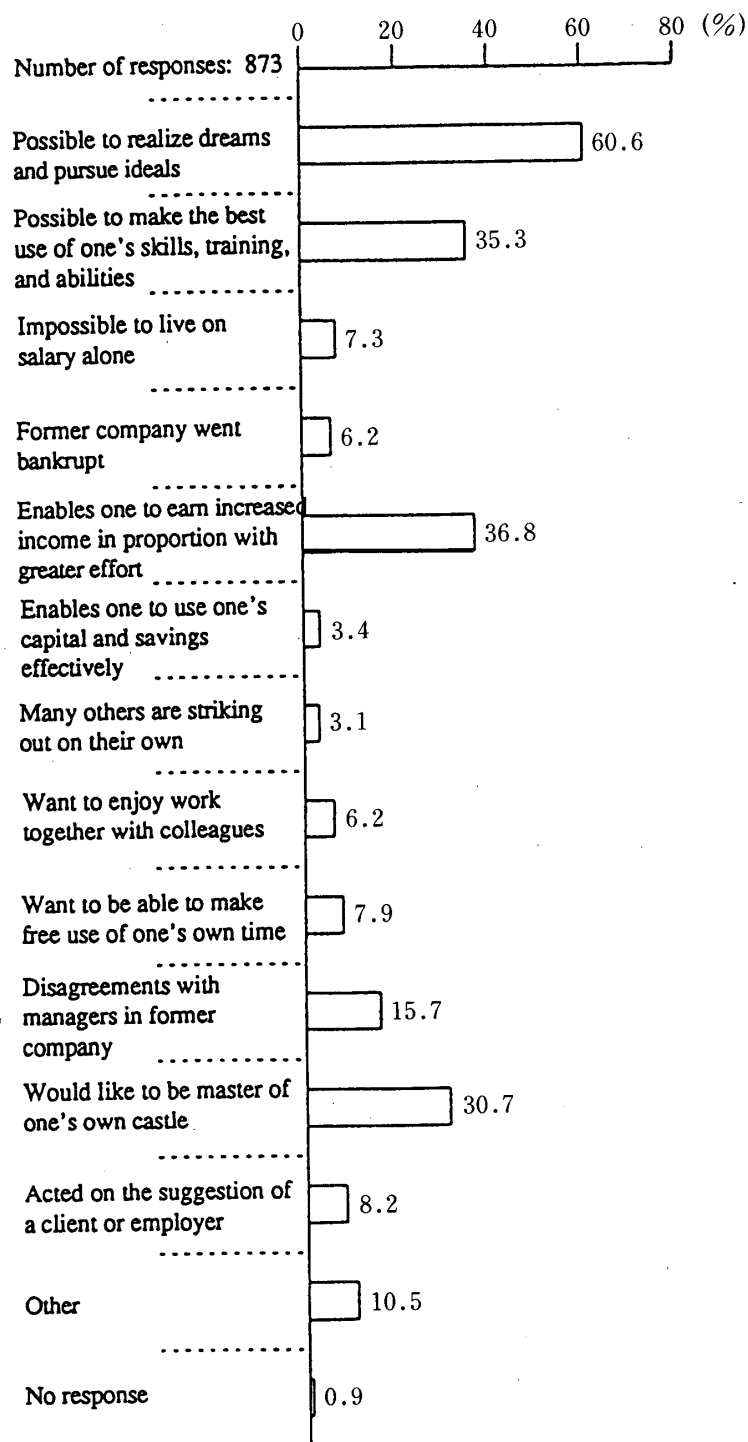
- 1) *Companies formed in order to help their founders realize their dreams and pursue their ideals*—During the period of time before the beginning of rapid economic growth, there were many cases of employees of small and mid-sized businesses who left their jobs and started their own small businesses so as to earn more income since they could not live on their wages alone.

In recent years, however, the reasons for which people choose to start new businesses are more often motivated by wishes to realize dreams and pursue ideals than by economic factors, and the results of the survey conducted by the SBRI shows that roughly 60 percent of all those persons who run small and mid-sized businesses of their own founding responded that started their businesses in order to realize their dreams or to pursue their own personal ideals, with the next most frequent responses given being that doing so enables one 'to earn increased income in proportion with greater effort' (36.8%) and that 'it makes it possible to make the best use of one's skills, training, and abilities' (35.3%). (See Figure 10.)

Thus one can see that today's managers of small and medium-sized business look upon their professions more as a means of realizing their potential than as a means of earning a livelihood, and it is for this reason that the results of the present survey show that many managers of small and mid-sized businesses believe that although they are busier than they thought they would be before becoming the owners and managers of their companies, the effort is worthwhile.

- 2) *Changes in the management environment and changes in the role played by managers of SMEs*—In modern-day Japan, people can satisfy virtually all of their surface needs with products already available on the market. Homes are already overflowing with high-tech products, and it has therefore become more important than ever before to be able to understand

( Figure 10) Why did you want to become the president of your own company? (Responses collected only from those who started their own companies, with respondents allowed to select as many as three of the available answers.)



The chart above was compiled from data presented in the October 1993 *Survey on owners and operators of small and mid-sized businesses and on support in creating new businesses* conducted by the Japan Small Business Research Institute



what people's hidden needs are and to conceive of products designed to answer these needs. In other words, businesses must now make it clear to consumers who and what a given product is for, why it is useful, and why it should contribute to making people happier.

In order to do so, however, companies must develop their own management ideals and policies and learn to display a clear awareness of the role they are to play in society. Note that while it is the role of managers to make these decisions, in the past the managers of SMEs in Japan were not generally considered to possess any such clearly thought-out ideals or policies. Yet in reality a great many such managers do possess clearly thought-out ideals, and they are fully aware of the role their companies ought to play in society.

c) More sophisticated management philosophies

- 1) *Making employees happy and contributing to the greater good of society*—In order to develop management ideals, it is first necessary to develop a management philosophy which answers the questions of just what it is that one hopes to accomplish in the running of one's business and where one will seek satisfaction in the operation of one's company. The results of the SBRI survey show that the majority of all owners and operators of small businesses give 'making employees happy' as the answer to these questions, with the next most common answer being 'contributing to the greater good of the local community or to society as a whole', and that virtually none of the respondents gave 'making money' as the answer to these questions.

Many respondents also answered that they would like to provide their employees with wages and benefits on a scale similar to those offered by large corporations or that they would like to provide their employees with a satisfying work environment. When asked about what they saw as their role in contributing to the greater good of the local community or to society as a whole, many respondents answered that they would like 'To develop the company to a point where it would contribute to the local economy and provide employment opportunities'. When one considers these answers in conjunction with the fact that 60 percent of all respondents said that the motivation which drove them to start their businesses lay in the wish to realize their dreams or pursue their own personal ideals, one sees that the owners of small and medium-sized businesses are possessed of high ideals and that they wish to realize

these ideals in the management of their companies.

- 2) *The new image of what it means to be a manager and the work environment in small and medium-sized businesses*—Reading the results of the survey as they have been presented thus far should lead one to think of a new image of what it means to be a manager of a SME. These managers are the possessors of management ideals grounded in idealistic management philosophies, they are aware of the roles their companies are to play in society, and they wish to transform their businesses into companies capable of competing on an equal footing with large corporations.

The standards by which we judge the quality of work are becoming more diverse, and they have moved beyond mere measures of wage levels and the number of holidays to include yardsticks such as the satisfaction which workers get from their jobs and the ease with which they can balance the needs of their work and their private lives. The standards by which we judge the quality of a company are also changing, leading away from simple measures of wage levels and corporate performance to include consideration of the way in which companies display consideration for the environment or contribute to the well-being of society. (See the *1993 White Paper on the Quality of Life of Japanese Citizens*.) Today's owners and operators of small businesses provide their workers with working environments designed to adapt to changes in worker needs, and many examples of such efforts have been recorded, as will be described in further detail in next chapter.

Of course it is true that when one looks at statistics comparing small and mid-sized businesses to large corporations one sees that small businesses are, on the average, inferior to large corporations in terms of factory equipment, office environments, wage levels, and number of holidays. But in those companies run by new-age managers, employees are being provided with satisfying work, and they are able to take confidence and pride in working at their chosen company by aiming to make their company a good or unique one, even if small. Although not all those persons who run small and mid-sized companies in Japan may be considered to be new-age managers, if more people come to recognize being a manager of a small business as a profession which is intellectually demanding and which allows one to realize one's own potential, then the number of such new-age managers should only increase in the future.

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## 6. Individual-oriented management in small and mid-sized businesses

Many of today's most successful small and medium-sized Japanese businesses are particularly strong in terms of organization and management. While the key to the success of such companies may be said to lie in the ability to create new markets, it is the vitality of their corporate structures which makes it possible to do so, and the single most salient characteristic of the organization and management of these companies is that they all employ individual-oriented management policies which place a high degree of stress on making the most of the talents and abilities of individual workers, policies which are in turn based upon a philosophy in which employees are recognized as being partners in the management of the company.

### a) Features of individual-oriented management philosophies

#### 1) The sharing of information through participation in decision-making

Employee creativity and the horizontal exchange of ideas serve as the driving forces which make it possible to create new markets. It is impossible to encourage creativity and the free exchange of ideas in top-down organizations where all orders are to be given by management and where no room is allowed for employee initiative. Employees, however, are able to think and act on their own initiative when they are allowed to share information and participate in the process of making decisions, and this freedom provides an environment in which employees can be creative and exchange information amongst themselves. One example of this may be seen at a certain pharmaceuticals company with some 200 employees which adopts a policy in which decisions are made only with the consent of all its employees. While it does take time to build such a consensus, a decision-making process such as this ensures that all employees agree on what it is they have to do, thus allowing each individual employee to make the most of his or her own abilities and ensuring that virtually all information is open and available

to everyone. One example of this openness may be seen in the company's data information systems, where one only has to check with a personal computer to find out the salary of anyone else in the company, from someone who works at the next desk right up to the company president. Since this company does not try to motivate its employees by top-down management, even though it has 200 employees it has no managers. The only two classes of workers are leaders and members, and according to this system leaders are not managers who are granted authority over others but rather simply those persons who are appointed to see that a job gets done. Members and leaders also sometimes exchange roles so as to allow younger employees to develop their own skills, and with the exception of the company president the company consists of a single flat organization, an organization which is said to have been created out of a search for a way in which to allow all employees to make the most of their own individual talents and abilities.

2) Consensus-building leadership and individual-oriented leadership

The managers of successful companies are successful as leaders as a result of an emphasis on the following two points :

The first of these points is that these managers understand the importance of building a consensus amongst their workers. They understand that even if they wish to respect the initiative and desires of individual workers, it is still necessary to ensure that the desire and will of all workers be directed towards the same goals. It is for this reason that managers must let their employees know what constitutes the corporate philosophy, corporate goals, and the meaning of individual employees working for the company as a whole in a way which convinces these employees that these philosophies and goals are their own and that their work is meaningful to the company as a whole, and it is for this reason that managers therefore direct all their energies to the task of building a consensus amongst their employees. Some managers believe that their single greatest duty is to issue a set of written management guidelines describing the corporate philosophy, corporate goals, and the importance of the work of individual employees, and once this task is finished, there are even managers who remain in their offices all day long no more than once a week.

The second of these points is that managers understand the importance of individual-oriented leadership. Note that this stands in opposition to task-oriented styles of leadership in which attention is focused exclusively

on professional performance, being instead a style of leadership which aims to improve morale by fulfilling the personal desires and needs of individual employees. An example of this style of leadership may be seen in the case of one manager who writes a total of 150 letters to individual employees every year in the belief that people become more motivated when they feel they are cared about and being paid attention to—something which might be considered to be a classical example of individual-oriented leadership.

3) The use of worker-oriented standards

The managers of successful small and mid-sized businesses are dedicated to providing a better work environment for their employees. However, just as one would expect, it is impossible to improve working conditions without limit, and it is instead necessary to balance the needs of workers with the need for productivity. The question then becomes one of just how one may achieve such a balance, and the traditional answer of most Japanese companies to this question has been to improve working conditions as far as possible while still improving productivity. This is a type of management known as productivity-oriented management. In accordance with this philosophy, the managers of some small and medium-sized businesses set targets each year for reductions in working hours or other goals and then create plans designed to increase productivity to a level which would make it possible to achieve these goals. An example of such an approach may be seen in that of managers who decided to increase the number of holidays per year by a total of two days, and who did so by reducing the length of each working day by 15 minutes and continuing this process of gradual reduction over a period of four years until they had successfully reduced the length of the working day by a full hour. Managers such as these first set improved working conditions as management objectives which are to be met independently of other targets and which are used to improve productivity by encouraging workers to meet these targets. Such management philosophies contrast directly with productivity-oriented management philosophies, and it is for this reason that they are known as worker-oriented standards.

4) Stress on training and education of personnel

In order to improve the abilities of their employees, the managers of successful small and medium-sized businesses also pay a good deal of attention to the training and education of their personnel and make

education one of the primary goals of management.

One example of this may be seen at a Japanese printing company which provides for as much as 125 hours of educational activities per year within working hours. This program is also remarkable in that employees are given personal responsibility for planning the nature of the educational activities to be implemented and in that employees also act as instructors in giving courses, thus ensuring that training is more than simply window dressing being provided by the company. What is more, the material covered in these courses is not restricted to work-related subjects, being designed instead to cover elements of general education and culture as well so as to provide courses aimed at helping employees develop their personalities as a whole.

While large corporations in Japan often offer programs of education designed to implant a sense of loyalty in their employees, these small and medium-sized companies do the reverse by offering courses designed to help their employees develop as individuals not belonging to any given corporation, an approach which is driven by the belief that such education is profitable not only for employees but also for companies as well, as it is free and independent personnel who are truly capable of coming forth with new and creative ideas.

If all of the above characteristics are taken into consideration, one sees that the organization and management of Japanese SMEs is centered around a wish to draw forth and develop the abilities of individual employees, or perhaps even around a philosophy which places a greater importance on the individual than the organization. This is why I believe that such management methods should be known as individual-oriented management.

- b) The philosophy in which employees are regarded as partners in management  
The philosophy of individual-oriented management was created as a by-product of a search for revolutionary new ways for companies to create new markets and encourage other forms of innovation, and this philosophy of management reflects the ideological beliefs of managers of small and medium-sized businesses in that it is in turn based on a belief that managers and employees are essentially equals who are partners linked together by a common pride in their work.

One traditional Japanese management philosophy is that of treating the company as a sort of extended family unit. Under this philosophy, a

company exists in order to improve the welfare of its workers, and relations between labor and management are viewed in much the same way as the warm relations which exist between parents and children. Note, however, that while the 'partners in management' philosophy is similar to the 'company as family' view in that both philosophies place a stress on improving employee welfare, it is essentially an entirely different form of management.

While the view of the company as a family likens management to parents and employees to children in a view which places managers on a higher footing than employees, under the philosophy that views managers and employees as partners in management, managers and employees are viewed as being independent and equal. Furthermore, while the view of the company as a family presupposes a system of rewards and repayments of same as the link between management and employees, in the view of managers and workers as partners it is the pride and joy which both managers and workers take in their work which serves as the bond that brings and holds them together.

Most managers today consist of people who were educated in accordance with democratic ideals after the war, young workers no longer have the same strong sense of belonging to a company as their fathers once did, and the need for knowledge and specialized skills on the part of managers has increased, thus making it difficult for them to rely on status alone for their authority, and these and other factors have worked together to create this new management philosophy.

Both individual-oriented management philosophies and philosophies in which employees are viewed as partners in management help to improve working conditions for people working at small and mid-sized businesses. Small businesses in Japan are well known for their superior productivity and technology. I, however, would like to draw attention to the fact that these businesses have also demonstrated superior performance in improving the quality of work and of working conditions.

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