

Strategies of Family Business Succession and Transformation in Japan

Tokyo Metropolitan Government 2017 Survey
Report of 2200 Small/Medium
Manufacturing Companies
with More Than 50 Year Longevity

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STATISTICS

1. Among 664,000 manufacturing companies in Japan, 99.5% are Small/Medium companies.
2. In Tokyo, 81,000 manufacturing companies and 80,000, 98.8% are Small/Medium companies.
(Ref.1)

(Ministry of Economy and Industry Japan, 2017)

3. By random sampling, Tokyo Metropolitan Government selected 10,000 Small/Medium companies and gathered responses from 2,200 manufacturing companies.

(Tokyo Metropolitan Government. 2017)

Abstract Part1:

What the 2017 survey report shows is

that family business companies have preserved entirely complementary management to

Scientific Management

which has been proposed by Frederic Taylor in the early 20th century and dominated for the past 100 years especially among Large/Medium corporations in stock market.

Abstract Part2:

The counterpart management preserved in family companies may be named as

Sustainability Management

from its underlying core value.

Abstract Part3:

The report also indicates major factors of **Sustainability Management**.

It also suggests the possibility that what is lost during the past 100 year of **Scientific Management** era can be resumed by its complement, **Sustainability Management**.

What are lost would be, humanity and human pride, emotional or inspirational leadership, and consequently creativity for sustainability.

Symbolic contradictions
between
Sustainability Management
of Small/Medium manufacturing companies
and
Scientific Management
of Large/Medium manufacturing companies

Contradiction 1. Employees Benefit vs Investors Profit

The ratio of Small/Medium manufacturing companies which have increased employee compensation and benefit for the past 10 years (2008-2017) is **65.9 %**.

Among 1600 Large/Medium manufacturing corporations listed in Tokyo Stock Exchange Market, the ratio of those which have increased the ratio of employee compensation to sales for the past 20 years (1993-2013) is **almost 0%**, except for Pharmaceutical Industry. **They have kept sacrificed HR cost to maintain constant operating profit ratio throughout the past 20 year period.** (Source: Kigyo Carte, Toyo Keizai Shinposha 1993-2013)

Contradiction 2. Perception of Company Definition

Social Entity:

More than **80 %** of 2200 Small/Medium manufacturing companies answer that the most critical success factor having realized their longevity of more than 50 years is **corporate philosophy prioritizing highest their social contribution.**

Stockholders' Property:

Logically expected answers of Majority of 1600 Large/Medium manufacturing corporations listed in Tokyo Stock Exchange Market would be that **maximizing profit and value for stockholders are the highest priority** based on the reality being listed in stock exchange market.

Contradiction 3. Commitment on People Development

More than **65 %** of 2200 Small/Medium manufacturing companies answer that they assume the time period to develop employees to be professional level is more than **5 years**. **35%** assume that it is more than **10 years**.

Logically expected answers and the reality of Majority of 1600 Large/Medium manufacturing corporations listed in Tokyo Stock Exchange Market would be far less than the above or would not tolerate the above long term by definition of their Short Termism or their duty to maximize short term profitability.

Contradiction 4. CEOs' Average Term

More than **54.5 %** of 2200 Small/Medium manufacturing companies answer that their CEO's term is more than **10 years**. **30.8%** answer that it is more than **20 years**.

Generally shared understanding and customs of the CEO term of 1600 Large/Medium manufacturing corporations listed in Tokyo Stock Exchange Market is at the longest **8 years or 4 years** as corporate standard and BOD rules.

By the recent report, the Fortune 500 CEOs' average term gets shortened **from 9.5 years to 3.5 years** for the period between 2002-2011. ("The Art and Science of Finding The Right CEO" HBR Nov. 2011)

Contradiction 5. Expectation to Employees as Innovators

73.2 % answer that innovation is indispensable for their survival in future. 38.1 % answer that their innovation depends on their development of employees creativity and evolution. 26.6 % answer that it depends on their development of top management. These ratios would show their strong belief and respect of humanity and human growth.

On the other hand, in stockholders' property definition companies, by the management mission to maximize short term profitability and to keep increasing efficiency by utilizing human resource, the expectation to employees' creativity and the respect of their human dignity would be just words.

Sustainability Management Factors in 2017 TMG Survey

Sustainability Management vs Scientific Management

prioritizes **Employees Benefits**

prioritizes **Investors Benefits**

perceives itself **Social Entity**

perceives itself **Investors' Property**

commits **Long Term People Development**

expects **Instant People Development**

needs **CEO's long term commitment**

expects **CEO's commitment on keeping short term profit maximization**

assumes **the creativity of employees as human beings**

pursues **the efficiency of utilizing human resources**

Reference 1. Number of Small/Medium companies in Japan 2017

Medium Small Companies, Japan					
(1000's)	Tokyo	Osaka	Aichi	Others	Japan Total
Manufacturers	80	66	53	461	660
Wholesales	48	32	22	195	297
Retail Sales	99	78	54	879	1110
Restaurants	46	40	29	270	385

Large Companies, Japan					
(1000's)	Tokyo	Osaka	Aichi	Others	Japan Total
Manufacturers	1	Less than 1K	Less than 1K	2	3
Wholesales	2	Less than 1K	1	2	5
Retail Sales	2	1	Less than 1K	8	11
Restaurants	1	1	Less than 1K	0	2

Total Number of Companies, Japan					
(1000's)	Tokyo	Osaka	Aichi	Others	Japan Total
Manufacturers	81	66	53	463	663
Wholesales	50	32	23	197	302
Retail Sales	101	79	54	887	1121
Restaurants	47	41	29	270	387

Source: Ministry of Economy and Industry, Japan 2018.04.11

Reference 2. Ratio of Small/Medium companies in Japan 2017

Medium Small Companies (% of Total)					
(1000's)	Tokyo	Osaka	Aichi	Others	Japan Total
Manufacturers	98.8%	100.0%	100.0%	99.6%	99.5%
Wholesales	96.0%	100.0%	95.7%	99.0%	98.3%
Retail Sales	98.0%	98.7%	100.0%	99.1%	99.0%
Restaurants	97.9%	97.6%	100.0%	100.0%	99.5%

Definition	Small Medium Companies	
	Total Capital	No. of Employees
Manufacturers	Less than 300 M.Yen	Less than 300
Wholesales	Less than 100 M.Yen	Less than 100
Retail Sales	Less than 50 M.Yen	Less than 50
Restaurants	Less than 50 M.Yen	Less than 100

Instructor Profile:

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Mitsubishi Corporation (1975–1991: including Mitsubishi–Westinghouse Nuclear Power Plant Site Representative (77–81) and Distribution Planning Director of Mitsubishi Motor Sales of America Inc. (83–88)), IT Service Manager of GE Medical Systems (1991–94), Director of PricewaterhouseCoopers (Currently IBM) (1994–2001), Managing Director of Hewitt Associates Japan (Currently AOM) (2001–04), CEO of Global Management Networks Co., Inc (2004–)

“Management Development for Corporate Sustainability” No.1,2 and 3, 2014,
“Innovation of Corporate Governance” 2015, “Corporate Sustainability Governance” 2015 (English, Co–Author), “Bushido AI Programming” 2016 (English, Co–Author), ‘Requirements for Family Business Succession and Transformation’ 2018, “Toyota CEOs’ Five Main Principles” 2018 (English, Co–Author)

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