



1. Special Essay:

Research on Japanese Business: From the Outside, Looking in

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2. Special Essay:

Thoughts on Japanese Corporate Support Measures in the Context of Covid-19

Elizabeth L. Rose

Professor of International Business
University of Leeds, UK, and
Indian Institute of Management Udaipur, India
e.rose@leeds.ac.uk
elizabeth.rose@iimu.ac.in



I have long been fascinated by Japan, especially as a business context. My interest in Japanese business began with my exposure to the quality management perspective, first as an engineer at Ford Motor Company, and later, as a young academic, having had the good fortune to interact with – and learn from – Professor W. Edwards Deming. Starting with a focus on the statistical aspects of quality control (which was logical, given that my PhD was in the field of statistics), I was drawn in by the managerial considerations and their clear connection to all aspects of business, from managing individuals to developing and implementing international strategy. As I became more interested in strategic management and international business, a long-term collaboration with Professor Kiyohiko Ito (e.g., Ito & Rose, 1999, 2010; Rose & Ito 2008) enabled me to develop a deeper understanding of various aspects of the strategies employed by Japanese firms, especially large multinational enterprises (MNEs). Professors

Kazuhiro Asakawa, D. Eleanor Westney, Ito, and I have also studied internationalization within the Japanese service sector (e.g., Asakawa, Ito, Rose, & Westney, 2013).

This stream of research has afforded me some credibility with respect to Japanese business, and I was honored to serve as President of the Association of Japanese Business Studies during 2009-2011. However, I am deeply aware that I am very far from being an expert on Japan and its business context! Among other things, not speaking – or understanding, or writing – the Japanese language means that I will always be an outsider, unable to comprehend a great many of the critical subtleties that characterize this environment. This is, of course, my loss. It also means that my observations are very much those of an outsider who lacks deep contextual comprehension.

The high contextualization that characterizes Japan means that deep understanding can only be

developed with real embeddedness, which can only develop over a long time. Insightful research pertaining to how Japanese businesses operate demands such deep understanding. There are many, many aspects of Japanese business that are extremely relevant to global scholars, but remain under-investigated and poorly understood, especially outside of Japan. This means that the under-representation of Japan-based scholars as authors of articles in international business and management journals is problematic, and impoverishes the international dialogue in business, management, and strategy research. While much is made of the specificity of the Japanese business environment, I believe that Japan represents a remarkable context in which to study a great many globally applicable phenomena.

How does studying Japanese firms shed light on fundamental issues in international management and strategy?

What follows are some examples of some of the many universally-relevant topics that can readily be studied in the Japanese business environment. The fact that these suggestions are being made by an outsider effectively guarantees that this collection of research areas is far from exhaustive, but I hope that they will generate some ideas and discussion.

One obvious issue pertains to understanding the *development of high-quality manufacturing processes*, from controlling quality to managing inventory. This was an important contributor to the remarkable international impact of Japanese MNEs in the manufacturing sector in the 1970s and 1980s, but the lessons remain salient, as manufacturers around the world face increasingly global competition and emerging-market multinationals (EMNEs) are becoming ever more substantial contributors to world trade. How have these strategies evolved over time? What are the benefits

and limitations associated with the managerial approaches that led to Japanese MNEs' leading positions with respect to the management of quality in manufacturing? What aspects facilitate or hinder the implementation of these managerial approaches in other institutional contexts, including emerging markets?

Issues pertaining to organizational structure offer another fruitful line of inquiry. The covid-19 pandemic is leading to rethinking of many aspects of how people work, which is likely to have implications for how organizations are structured. In many countries, organizational structure tends to be very hierarchical, and the popular press regularly raises the issue of the huge disparity between the remunerations of top executives and workers – especially when many workers find it difficult to survive financially in spite of multiple jobs and very long hours of work. In contrast, large Japanese organizations tend to have relatively flat organizational structures; this is more consistent with the increased autonomy associated with the pandemic-induced shift to remote working. As such, the long experience in Japan of *managing within relatively flat organizations* has considerable currency. The Japanese experience is especially interesting, as it takes place in the context of a rather hierarchical society, unlike, for example, the social context of the Nordic countries, where flat organizational structures are also the norm. What can organizations around the world learn from this wealth of experience, and how might this relate to the future of work? What are the challenges associated with transferring this structure to other contexts in the process of engaging in foreign direct investment? Of course, flatter organizational structures do not represent a panacea. What light does the Japanese experience shed on both the brighter and darker sides of human resource management, both domestically and internationally?

Japan also offers an excellent opportunity for researchers to develop a deeper understanding of

the *impact of national context* on how firms operate, grow, and internationalize. This has particular salience for many emerging economies. First, the nature of Japan's *industrial organization* – specifically, the impact of *zaibatsu* and *keiretsu*

during periods of important economic development – has parallels in the business groups that are prevalent in many emerging and developing economies (e.g., China, India, Indonesia, and much of Latin America). While there is a growing academic literature pertaining to business groups in emerging

markets, remarkably few of these articles even mention *zaibatsu* and *keiretsu*. In the Japanese context, the role of the *sogo shosha* is of particular interest. There is little doubt that the trading companies' knowledge and experience have represented a key intangible resource for Japanese firms, especially during times of building an international presence early in the 20th century and then rebuilding international engagement during the post-war era. These highly-internationalized firms' long histories, including collapses, mergers, and rebranding, offer a rich context in which to study industry dynamics. Another aspect of interest, especially for emerging markets, concerns the *rapid and effective internationalization* of Japanese firms during the second half of the 20th century. In 1948, Japan's share of global exports¹ was 0.44%; this rose to 9.86% by 1986. (For comparison, China's figures were 2.04% in 1991 and 14.74% in 2020.) These export statistics, though, are unable to reflect the global impact of Japanese MNEs during the 1970s and 1980s. Working in the U.S. automotive industry from 1977 to 1981, I observed, first-hand, how leading Japanese firms were able to disrupt the passenger car market and force the major U.S. car companies to scramble to attempt to change their

approaches to many aspects of the business, from design to managerial practices. The Japanese government (e.g., MITI) played an important role in this growth, which was coincident with a shift from competing on the basis of low cost to competing on

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the basis of innovation and high quality. With government support for key industries, Japanese firms learned, very quickly, how to become internationally competitive – and, in many cases, dominant. It is interesting to see that, albeit with a different approach to government support, many Chinese firms have been replicating this internationalization path over the past several decades. However, the Japanese experience should arguably be more informative for other countries seeking to facilitate their domestic firms' entry into international markets, given the specificity of China's economic system. In addition, Japanese MNEs' well-documented focus on using internationalization as an opportunity for learning (e.g. Hamel, Doz, & Prahalad, 1989) provides what I believe to be a very useful example for firms from other countries that are in earlier stages of approaching global markets.

The Japanese context also represents a reasonably extreme condition with respect to *population demographics*, which presents a challenge for both MNEs and domestic firms. Japan is certainly not alone among developed nations in terms of an aging population; while much higher than most emerging and developing markets, the median age of

1 Data are sourced from www.unctadstat.unctad.org.

2 Data are sourced from United Nations, Department of Economic and Social Affairs, Population Division (2019). International Migration 2019: Report (ST/ESA/SER.A/438).

3 Data are sourced from <https://data.oecd.org/pop/fertility-rates.htm>.

4 Data are sourced from <https://data.oecd.org/pop/working-age-population.htm>.

5 See <https://www.ef.com/wwen/epi/regions/asia/japan/>.

its population is not substantially different to that of many countries in Europe. However, Japan's long life expectancy, when combined with its low level of immigration, makes it something of an outlier with respect to workforce demographics. As of 2019, Japan's proportion of foreign-born residents was 2.0%, which is a bit below the worldwide average of 3.5%². Stratifying by the level of economic development, though, clarifies Japan's outlier situation. The 2019 proportions of foreign-born residents in high-income and low-income regions were 14.0% and 1.9%, respectively. Comparable figures are 11.0% for Europe, 16.0% for Northern America, and 21.2% for Oceania. As such, Japan's combination of long life span, relatively low fertility rate (1.36% in 2019³), and low immigration levels means that the available workforce is constrained; 59.7% of Japan's population is of working age, compared to 72.8% for South Korea⁴. Many OECD countries are experiencing declines in their working-age populations, but the more extreme nature of the demographic situation in Japan means that Japanese firms are at the forefront of developing approaches to dealing with this challenge.

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Considering another issue, the vast majority of research pertaining to MNEs considers the manufacturing sector. To date, our knowledge pertaining to the *internationalization of services* is relatively underdeveloped, despite the growing importance of services in the context of global trade. Here, again, studying Japanese firms offers the potential for interesting insights. While Japanese manufacturing MNEs have internationalized extremely successfully, firms in Japan's service sector have been much less active away from home.

While there are, of course, counter-examples (including the inherently international *sogo shosha*, the construction industry, Kumon, and the globally-popular *anime*), the bulk of Japan's service providers retain a strongly domestic focus. This is particularly noteworthy in light of the astonishingly high standards of service that are prevalent in Japan, relative to so many other countries (e.g., Johansson, 1990). Why have these high-quality offerings not been internationalized more extensively? Are they too deeply embedded in the Japanese context to cross borders effectively and profitably? Clearly, context is more critical for the delivery of services, relative to manufacturing, given the inherent involvement of the customer in the “production” process. Studying this issue among Japanese service firms may provide valuable insights into the impact of context on service-sector internationalization.

On a more macro level, Japan offers the opportunity to understand more about how MNEs deal with the need to remain profitable during a *sustained slowdown in their domestic economic environment*. While the duration of its ongoing

economic doldrums is severe, Japan is extremely unlikely to be the only economy that experiences rapid growth and then sharp decline. How does Japan's historical experience of building and rebuilding its economy inform firms' behaviors? What lessons can be derived from the manner in which Japanese MNEs are managing

under such challenging circumstances?

Finally, the extensive international reach of Japanese firms provides a fascinating context in which to study how MNEs deal with *issues of language* in their organizations. Despite the widely-publicized example of Rakuten's adoption of English as *lingua franca* across its international operations, this is not the norm – nor is this this approach without challenges, as the mandated use of a second language may reduce the richness of communication within the

organization (e.g., Neeley, 2012). At the same time, there is evidence that English-language proficiency is, on average, declining in Japan⁵. Given the widespread use of English in international business, this suggests that many Japanese MNEs continue to make extensive use of “parallel organizations” in which regular communication between subsidiaries and headquarters is largely the responsibility of subsidiary-based expatriates, who then transfer information to local (host-country) employees. This is, of course, not a uniquely Japanese phenomenon, but interferes with open communication in a different way. The extensive internationalization of Japanese firms, combined with the relatively low comfort level of many Japanese citizens with English, offers real potential for developing insights into the impact of language on firms’ international operations.

Conclusion

Research in the field of international business places strong emphasis on context. While all national contexts have unique attributes, there is no doubt that Japanese MNEs operate in an environment that has many distinctive characteristics. That said, many of these distinctive characteristics allow for the study of some core, general issues in situations that are closer to boundary conditions than can be found in other countries, offering the potential for the development of particularly deep theoretical and empirical insights.

This potential is greatly enhanced by two additional – and interrelated – attributes of Japan: a strong sense of history and an appreciation of the value of detailed business-related information. Japan has always struck me as a data-rich nation. As someone whose work is primarily quantitative, I am consistently in awe of the ready availability of high-quality data to facilitate research pertaining to various aspects of Japanese MNEs. The value attributed to history means that valuable longitudinal research is possible, more so than in many other nations.

In summary, I see so much potential in the Japanese context for investigating theoretically interesting, globally applicable questions pertaining to MNEs and internationalization. However, doing this well demands that researchers truly understand the context, and that is extremely difficult for researchers who are not deeply embedded in that context. This means that we need to hear more of the voices of Japan-based scholars.

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Special Essay:

Thoughts on Japanese Corporate Support Measures in the Context of Covid-19

Shingo Nishii, Ph.D.

Professor of International Business and Regional Innovation
Graduate School of Social Sciences,
Department of Professional Business,
Regional Innovation Course,
University of Hyogo, Japan
nishii@mba.u-hyogo.ac.jp



Introduction

As of this writing (early June 2021), COVID-19 vaccination coverage (at least one dose) has reached about 20% of Japan's total population, and vaccination coverage of the elderly (65 years and older) has reached over 50%. Vaccination in workplaces and universities has also started, and its expansion is proceeding at a rapid pace. The state of emergency, which had been extended for a long time, has been lifted except in Okinawa Prefecture. Although the situation remains unpredictable due to the risk of rebound and the appearance of new mutant strains of COVID-19, the "new normal" in social life is progressing.

On the other hand, in terms of economic activities, restrictions are still in place, and the impact of COVID-19 is enormous. In particular, its effect on small and medium enterprises (SMEs), which are said to support Japan's economy and society, is extremely serious. According to a questionnaire survey¹ conducted by the Japan Broadcasting Corporation (NHK), Japan's public broadcaster, and the Dai-ichi Life Insurance Company, Limited, a major life insurance company (published on January 14, 2021), 68% of the SMEs that responded noted decreased

sales (compared to before COVID-19's spread). Twenty-nine percent said that their sales had decreased by about 30%, and 17% said that their sales had fallen by more than 50%. The impact was particularly large in the accommodation and food services industries. Two out of every three companies in the accommodation industry and one out of every two companies in the food and beverage service realm responded that their business had decreased by 50% or more.

In response, the Japanese government has taken a number of measures. Several subsidies were provided as immediate measures. Now, rather than another COVID-19 emergency measure, the "Business Restructuring Subsidy" has been introduced to respond to the economic and social changes of the COVID and post-COVID era and to promote the structural transformation of the Japanese economy.² The subsidies are directly targeted at SMEs and medium-sized enterprises (MSEs)³ to help them restructure their businesses. Simultaneously, the subsidies will contribute to raising and expanding the effectiveness of management support organizations, management consulting services, and other management-related

professional services in Japan.

The purpose of this paper is to introduce business restructuring subsidies as one of the latest Japanese corporate support measures in the COVID-19 disaster and then to make observations about management support organizations and the professionalization of existing services in Japan.

In writing this paper, the author interviewed Dr. Toshiki Matsuura, Chief Coordinator of the Hyogo Prefectural Federation of Small Business Associations,⁴ one of the major public management support organizations in Hyogo Prefecture⁵ and the location of the university with which I am affiliated. Dr. Matsuura worked at a financial institution before joining the organization and has been involved in front-line management support services for almost 30 years. He is a certified Small and Medium-sized Enterprise Management Consultant and has a doctorate in business administration (specializing in intellectual asset management). The explanations and discussions of management support organizations and regional financial institutions below are based mainly on interviews with Dr. Matsuura and the materials that he provided. I would like to express my gratitude to him.

Overview of Business Restructuring Subsidies Background on the Creation of Business Restructuring Subsidies

According to the Small and Medium Enterprise Agency (SME Agency), the background of business restructuring subsidy creation is based on the perception that Japanese companies are "no longer doing anything new." According to an OECD

(2017) survey, among developed countries, the percentage of companies in the manufacturing and service industries that have introduced new products and services is lowest in Japan.⁶ Similarly, the ratios of capital investment and R&D expenditures to operating income have continued to decline for Japanese companies. On the other hand, companies' retained earnings are increasing, and these firms tend not to invest their profits.⁷

In addition, the SME Agency mentions the transformation of *keiretsu*-style transactions. To put it bluntly, until now, the top companies in the chain have been its "brains," constructing the big picture strategy, while the companies at the lower levels, especially the SMEs at the end of the chain, have only had to follow orders from the top companies. Protected by and dependent on supply chains centered on large corporations, it was sufficient to consider only reactive tactics. However, the COVID-19 epidemic has made it impossible to maintain affiliative transactions (because of the slumping performance of top companies, the collapse of certain industries). The SMEs that can no longer rely on these conventional transactions have been forced to transform themselves, change their business models, and so on.⁸ More specifically, the SME Agency believes that this situation has been developing since Japan's population began to peak and that COVID-19 has brought its effects to a head in specific industries.

The Objectives and Main Screening Requirements for Business Restructuring Subsidies

1 For more information, see "COVID-19 Impact on SMEs in Data," (https://www3.nhk.or.jp/news/special/coronavirus/economic-indicators/detail/detail_14.html.)

2 The following description of "business restructuring subsidies" is based on the contents of the official website of the Small and Medium Enterprise Agency's "Business Restructuring Subsidies" (<https://jigyousaikouchiku.jp/>) and the materials downloadable from the same website. As the English version of the website is not yet available, the Japanese to English translation was made by the author.

3 In this paper, SMEs and MSEs are used separately. According to the regulations for business restructuring subsidies, the scope of SMEs includes "manufacturing and others" (companies with capital of 300 million yen or less or companies and sole proprietorships with 300 employees or less), "wholesale" (companies with capital of 100 million yen or less or companies and sole proprietorships with 100 employees or less), "retail" (companies with capital of 50 million yen or less or companies and sole proprietorships with 50 employees or less), and "service" (companies with capital of 50 million yen or less or companies and sole proprietorships with 100 employees or less). The scope of MSEs is companies that do not fall within the scope of SMEs and have capital of less than 1 billion yen.

In addition, so-called "deemed large companies" such as subsidiaries of large companies are not eligible for support.

The purpose of the business restructuring subsidy, which was created against this background, is to promote structural transformation of the Japanese economy by supporting the drastic business restructuring of SMEs, and responding to the economic and social changes of the COVID and post-COVID era. The program targets SMEs, MSEs, sole proprietors, business associations, etc., that are experiencing difficult business conditions due to COVID-19. Several rounds of public solicitation are expected, and at this point, the first round of public solicitation has already been completed and the adoption results have been announced. The adoption rate for the first round of applications was 36%, which is very low compared to existing subsidies, making the selection process that much more difficult.

The three main screening requirements are as follows. The first requirement is a decrease in sales: the total sales for any three consecutive six-month periods after October 2020 must have decreased by at least 10% compared to the total sales for the same three-month period before the COVID-19 epidemic (January-March 2019 or 2020). Secondly, the company is committed to business restructuring. Applicants must develop

new business fields, change business categories, or change businesses or industries following the business restructuring guidelines. Third, applicants are required to develop a business plan for business restructuring with a certified management innovation support organization. For projects where the amount of subsidy exceeds 30-million-yen, financial institutions (banks, credit unions, funds, etc.) must also participate in creating the business plan. If the financial institution also serves as a certified management innovation support organization, only financial institution participation is required. Then, the applicant must formulate a business plan to achieve an average annual increase of at least 3.0% in value-added (5.0% in the case of the global V-shaped recovery framework) or an average annual increase of at least 3.0% in value-added per employee (5.0% in the case of the global V-shaped recovery framework) within three to five years after the completion of the subsidized project.

Budget Amount and Application Quota

The budget for business restructuring subsidy is 1,148.5 billion yen, which is more than 10 times larger than other typical subsidies such as "Monozukuri subsidies"⁹ (about 80-100 billion yen).

4 The National Federation of Small Business Associations is the leading organization for SME support in Japan, with one organization in each prefecture. For more information, please visit the official website (<https://www.chuokai.or.jp/index.aspx>).

5 Hyogo Prefecture is located in the middle of Japan and has a population of about 5.4 million with Kobe City, famous for its "Kobe Beef," as the prefectural capital.

6 According to the survey, the percentage of companies that have introduced new products and services (2012-2014: the percentage of companies that responded to a questionnaire for companies that said they introduced new products and services (including the addition of new functions or significant improvements in usage) in 2012-14) in the manufacturing industry is, in descending order, Germany (18.8%) Italy (17.8%), the US (12.7%), the UK (12.7%), and Japan (9.9%). Similarly, in the services sector, Italy (12.2%), the UK (10.1%), Germany (9.0%), the US (7.6%) and Japan (4.9%). These data are based on OECD (2017), the OECD Science, Technology, and Industry Scoreboard 2017. This data is included in a handout of the Future Investment Council, Headquarters for Japan's Economic Production, Prime Minister's Office, September 19, 2030 (<https://www.kantei.go.jp/jp/singi/keizaisaisei/miraitoshikaigi/dai30/siryou2.pdf>).

7 It is said that Japanese companies have over 400 trillion yen in retained earnings. The ratio of capital investment and R&D investment to corporate operating profit (Japan-U.S. comparison, indexed at 100 in 2011) is 115 in the U.S. and 85 in Japan for capital investment/operating profit, and 131 in the U.S. and 74 in Japan for R&D investment/operating profit in 2018. The original data is based on the Ministry of Finance's "Corporate Business Statistics," the Ministry of Economy, Trade, and Industry's "Basic Survey of Business Activity," the U.S. Census Bureau's "Quarterly Financial Report," and "Business Research and Development and Innovation" by the National Science Foundation. The same data is included in a handout of the Future Investment Council, Japan Economic Production Headquarters, Prime Minister's Office, September 19, 2030 (<https://www.kantei.go.jp/jp/singi/keizaisaisei/miraitoshikaigi/dai30/siryou2.pdf>).

8 According to a survey conducted by the SME Agency (an online questionnaire survey of large and small companies conducted from October 5-12, 2020, and December 1-9, 2020; the questions were: "What was the level of your company's sales in November of this year (2020) when the same month last year was 100? According to the survey (conducted by 7,968 companies), the distribution of changes in November 2020 sales compared to the same month of the previous year shows that 23% of the companies answered "increased." It can be assumed that these companies' existing business relationships are being maintained. On the other hand, the percentage of companies that answered "decreased by 20% or more" to "decreased by 90% or more" reached 32%. For more information, see the SME Agency's video explaining business restructuring subsidies (<https://www.youtube.com/watch?v=VLiIpDcbgbs>).

For SMEs, there are two types of subsidies: "Regular Quota" and "Graduation Quota." The subsidy amount for the Regular Quota ranges from 1 million yen to 60 million yen, and the subsidy rate is 2/3. The Graduation Quota is limited to 400 companies and is a special quota for businesses that will grow from SMEs to MSEs by increasing capital or employees through (1) organizational restructuring, (2) new capital investment, or (3) global expansion within the business plan period. The subsidy amount is from over 60 million yen to 100 million yen, and the subsidy rate is 2/3.

For MSEs, there are two types of subsidies: "Regular Quota" and "Global V-shaped Recovery Quota." In the Regular Quota, the subsidy amount is between 1 million yen and 80 million yen, and the subsidy rate is 1/2 (1/3 for companies over 40 million yen). The Global V-Shaped Recovery is limited to 100 companies and is a special program for medium-sized companies that meet all the following requirements. (1) Medium-sized companies whose total sales for any three consecutive months after October 2020 have decreased by 15% or more compared to the total sales for the same three months before the COVID-19 epidemic. (2) The formulation of a business plan to achieve an annualized increase of at least 5.0% in value-added or value-added per employee over the next three to five years after the end of the subsidized project. (3) The project must be a global expansion project. The subsidy amount is from over 80 million yen to 100 million yen, and the subsidy rate is 1/2.

The Process from Business Plan Development to Subsidy Payment and Follow-up

The review of subsidies is based on the business plan.¹⁰ To be chosen, it is necessary to formulate a "reasonable and convincing" business plan. In addition, the business plan must be formulated in consultation with a certified business innovation support organization. Certified business innovation support organizations are also expected to provide advice and follow-up at the business implementation stage.

The key points that should be included in the business plan are as follows:

- The current business of the company, its strengths and weaknesses, opportunities and threats, business environment, and the need for business restructuring.
- Specific details of the business restructuring (products/services to be provided, equipment to be installed, construction work, etc.).
- Market conditions for the business restructuring, the company's advantages, pricing, issues and risks, and their solutions should also be provided.
- Implementation structure, schedule, financing plan, and profit plan (including increased value-added).

Certified management innovation support organizations are organizations authorized by the Minister of Economy, Trade, and Industry to be

9 The official name of the subsidy is "Subsidy for Promotion of Productivity Improvement in Manufacturing, Commerce and Services." It is a subsidy given to SMEs for capital investment in management innovation. For more information, please refer to the official website of the Monozukuri Subsidy (<https://portal.monodukuri-hojo.jp/about.html>).

10 The definition of business restructuring is "business activities of small and medium-sized enterprises, etc. based on a plan to develop a new field, change business, change industry, change business category, or reorganize business," and the details are stipulated. For more information, please refer to the Business Restructuring Guidelines authored by the SME Agency (<https://jigyousaikouchiku.jp/pdf/shishin.pdf>).

11 The Small and Medium Enterprise Management Consultant is a national qualification (but not a business exclusive qualification) and is the only public qualification for management consultants in Japan. According to the National Qualification Difficulty Ranking 2017 (<https://www.manegy.com/news/detail/573>), the pass rate is 4.2% (21.7% pass rate for the first exam, 19.4% pass rate for the second exam). It is a highly difficult qualification to obtain. Holding this certification is not necessarily a prerequisite for providing management consulting services, but it is often a prerequisite for receiving requests from public institutions and for performing policy-related work. In addition, certified business innovation support organizations are required to have specialized knowledge of taxation, finance, and corporate finance (in the case of corporations, tax accountant corporations, audit corporations, and law firms), or to have at least three years of practical experience in supporting small and medium-sized enterprises, including at least one year of practical experience in statutory business. In terms of qualifications, tax accountants must have at least three years of work experience, including at least one year of work experience in legal services, in support of small and medium-sized businesses. In terms of qualifications, certified tax accountants, lawyers, certified public accountants, and the Small and Medium Enterprise Management Consultant are equivalent. For more information, see the SME Agency's website on "Authorized Support Organizations" (<https://www.chusho.meti.go.jp/>).

capable of supporting SMEs. More than 30,000 financial institutions, support groups, tax accountants, and certified Small and Medium-sized Enterprise Management Consultants have been certified throughout Japan.¹¹

The subsidy will be paid only after confirmation of expenditures by the project. The business plan must be followed up even after the end of the subsidy period. Annual reports on business status, etc., are required for five years after the subsidized project ends.

Reference Examples of Business Restructuring

The SME Agency has introduced the following examples as reference cases for business restructuring. In an example of manufacturing industry use (the development of new business fields), a company manufactured aircraft parts before the COVID-19 epidemic. However, demand decreased due to COVID-19's impact, so the firm disposed of related equipment in some of its businesses as part of business development, launching a new venture that manufactures medical equipment components. In this case, the subsidy covers the cost of equipment removal for business compression, the cost of introducing new equipment for manufacturing, and the cost of training for employees engaged in the new business. In an example of retail industry use (change of business category), a company was operating a men's clothing sales business before COVID-19, but sales declined due to its impact. Exemplifying this change of category, the company reduced its store operations and converted to an online men's clothing sales and rental business. In this case, the subsidy covers the cost of renovating the building because of the store's downsizing and the cost of building a system to introduce new online services. The SME Agency has introduced more than a dozen reference cases to create an image of "business restructuring."

This is the outline of the business restructuring subsidy. Again, its purpose is to promote the structural transformation of the Japanese economy

by supporting drastic business restructuring of SMEs and MSEs to cope with the economic and social changes of the COVID and post-COVID eras. The subsidies are "support for the potential" of SMEs and MSEs and provide opportunities for SMEs and MSEs to embark on transformations, business restructuring, and business model changes that they have been unable to undertake on their own.

The Networking of Management Support Organizations and Professionalization of Existing Services

The Relationship Between Management Support Organizations, Professional Services, and Subsidies

As mentioned above, to apply for a business restructuring subsidy, it is necessary to work with a certified management innovation support organization. Although circumstances vary depending on the applicant's corporate size (amount of management resources) and management capabilities, it is often difficult for applicants to develop a "reasonable and convincing" business plan using their capabilities alone. In particular, it is very difficult for SMEs and MSEs, which have not continuously conducted strategy formulation and business analysis, to explain each item required in the application guidelines adequately. The same is true for follow-up. Even if the project is successfully adopted, it is a heavy burden for the applicant to implement the business plan and conduct self-assessment smoothly.

Therefore, applicants need to make good use of various professional services related to management, including certified business innovation support organizations, not only for the formalities of applying for the subsidies but also for the implementation of the subsidized projects and business restructuring. In other words, in Japan, subsidy projects are one of the main business activities for professional services related to management. They are also a source of income for private professional service firms. To put it another way, the emergence of subsidies for business

Figure 1: Shikkaiya Chuokai’s Network Structure



Source: Prepared by the author based on materials provided by Dr. Matsuura. The blue dotted arrows indicate the specialized fields in which each management support organization specializes. Institutions that work particularly closely with “Shikkaiya Chuokai” include the Hyogoken Credit Union, Danyo Shinyo Kumiai Bank, and Shoko Chukin Bank (Kobe, Himeji, and Amagasaki). Similarly, institutions with a relatively high degree of cooperation are marked in blue.

restructuring is forcing existing professional management services to innovate as well.

Networking of Existing Management Support Organizations

As an example of innovation in existing management support organizations, consider a case study of the networking of management support organizations in Hyogo Prefecture (Figure 1). Although there are many management support

organizations in Hyogo Prefecture, they have been providing their services in accordance with the purpose for which each organization was established. As a result, it was difficult for the end-user, the business owner, to understand the differences (characteristics and areas of expertise) between the organizations, making it difficult to determine which one would be appropriate to consult.

To improve this situation, the Hyogo Prefectural Federation of Small Business Associations

Figure 2: Degree of Thoroughness of Business Evaluation (Business Model)

Thoroughness	Example
Level 4: Business Consulting	Provide consulting services (for a fee) to support core businesses at a level that contributes to the services and added value of client companies, such as through improving sales and operations. - Utilize industry-specific knowledge accumulated through past support for local industries. - Focus on training experts, including industry alumni and those with experience in secondment. - Consulting know-how is still being strengthened with monthly reviews by external consultants.
Level 3: Financial Consulting	Provides consulting services (for a fee) focusing on business revitalization/BS improvement, medium-term management planning, etc. -Focusing on low-rated companies, based on a large number of past business turnarounds. -Leverage the size of the bank to provide a broad lineup of solution services through a generous headquarters structure.
Level 2: Financial Service	Provide (relatively simple and practical) consulting services (for a fee) based on the bank's know-how in ICT, human resource systems, management enhancement, etc. -Utilize the know-how gained from introducing ICT and improving business efficiency.
	Offering a menu of proposals centered on outsourcing and providing a "full range of management consultation." -Supplementing the lack of resources and know-how of our own bank through external alliances.
	Thoroughly implement sales activities that emphasize contact points through frequent visits and information accumulation. -Leverage our experience in relationship banking led by the field. -Focused on frequent visits to all business partners and the creation of a database of the vast amount of qualitative information obtained through these visits.
	Providing fee-based business matching for sales support -To improve our presence in the prefecture, we specialize and focus on the sales support (business matching) that our customers would be most pleased with.
Level 1: Same as before	Preparation of business evaluation sheets only -Although the sheet has been prepared, proposals are yet to be made. -Only as a document attached to the approval process.

Source: Based on Kanazawa et al. (2018), p. 6, with some notations modified by the author.

(the Japanese name is *Hyogo Chusho Kigyo Dantai Chuokai*) has named itself *Shikkaiya Chuokai* and has been working on networking for about 10 years. The name *Shikkaiya* is derived from the Japanese *kimono* industry, which has been in existence since the Edo period (1603-1868) and deals with traditional Japanese clothing and the fabrics used for kimonos. The word *shikkai* means "everything and anything," and *shikkaiya* means an organization that "consults on any matter related to the kimono." It is a producer and coordinator of various processes, such as those related to kimono dealers, customers, dyers, tailors, dyeing, and washing.

Therefore, the term *Shikkaiya Chuokai* represents the intention to provide one-stop consultation for business owners. Through the *Chuokai*, business owners who have problems can

collaborate with support organizations and specialists suitable for solving their problems. Looking at it the other way around, the *Chuokai's* consultation does not solve the problems of business owners in a partial manner but sees them as comprehensive problem-solving projects. It works to optimize their capabilities based on cooperation with various support organizations.

The Professional Servitization of Regional Financial Institutions

According to Dr. Matsuura, in parallel with the development of this network of business support organizations, Japan's regional financial institutions have in recent years begun to offer more and more professional services. Until now, the business model

of Japan's regional financial institutions has been based on the "deposit and loan" model, i.e., collecting deposits and lending them out. However, the shrinking of local economies due to the declining birthrate and aging population, as well as the effects of long-term low-interest-rate policies, mean that the old business model is about to collapse. As a result, there is a great deal of interest in creating a new, sustainable business model for regional financial institutions.

The key to this new business model is the concept of "business evaluation."¹² The concept behind business evaluation is to "perform financial intermediary and consulting functions by appropriately evaluating a company's business and growth potential without relying on collateral or guarantees from the client." According to the survey by Kanazawa et al. (2018), there are four business models (four levels) regarding the thoroughness of business evaluation (Figure 2).

Level 1 is the same as before, although business evaluation sheets are prepared, business issues are not shared with customers, which is relatively an extension of conventional lending transactions. Level 2 is the level of financial services, the company has a menu of finance-related solutions, such as M&A, business succession, and business matching. Level 3 is the level of financial consulting, which means that although it does not improve the profitability of the core business, it provides full-scale consulting services such as balance sheet restructuring and support for the formulation of medium-term management plans, utilizing its screening capabilities and financial intermediary functions as a financial institution. Level 4 is the level of business consulting. In addition to grasping the client company's business situation, they can penetrate the client company's internal realities, such as marketing and business operations, and make proposals to contribute to the client company's services and added value itself, such as sales

improvement and cost structure.

Considering this in relation to the subsidies mentioned in the previous section, it is difficult to provide substantial support in formulating a business plan unless the company has reached at least Level 3. More specifically, unless a company can provide Level 4 services, it cannot be called a competitive professional service.

Conclusion

In this paper, I have introduced business restructuring subsidies. These large subsidies are currently attracting very high expectations. I also made some observations on changes in management support organizations and their professional services in Japan.

Subsidies are often ridiculed as being ineffective and useless for structural reform. On the other hand, as the SME Agency has stated, it is also true that it is exceedingly difficult for troubled SMEs and MSEs to innovate and build new business models through self-help efforts alone. In particular, in the current COVID-19 disaster, survival is the top priority, and most companies probably do not have time to innovate their business models. This is why business restructuring subsidies are so significant. However, I only hope that the subsidies will not end up being a one-time, temporary measure.

In addition, I would like to emphasize that, in practice, the true strength of a company does not depend solely on its capabilities. As introduced in this paper, the competencies of the various support organizations and professional service firms that support the company in question are equally important, and the parallel development of these management support industries will lead to the structural transformation of the Japanese economy. Dr. Matsuura emphasizes the importance of the "ability to be supported." This has two meanings. First, it is important for managers to make good use of support organizations and professional services.

12 "Business evaluation" has been advocated by the FSA since around 2014. Regarding the survey results described below, I refer to Kanazawa (2018).

Secondly, it means that each support organization should develop the ability to be sustained by other support organizations.

The author has long advocated the significance of studying the professional services industry, both from academic and practical perspectives. Due to confidentiality restrictions, it is difficult to make it a research subject, but in reality, many companies are using the help of various management support organizations and professional service firms in their business activities.

At first glance, what has been introduced in this paper may not seem to be directly related to the activities of MNCs. Still, the author believes that it is an especially important point of discussion in terms of the importance of location as the home of MNCs and a source of competitive advantage in discussion of industrial clusters. I would like to discuss the relationship between the management support industry and multinational corporations in another paper.

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Japan MNE Insights Editorial Team is currently located at
Office of Dr. Tamiko Kasahara,
University of Shizuoka, School of Management and Information
52-1 Yada, Suruga-ku, Shizuoka, 422-8526, Japan
TEL/FAX: +81-54-264-5435 (direct)
Contact e-mail address: kasahara@u-shizuoka-ken.ac.jp

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