

Management of Small Businesses

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Characteristics of the Current Recession

Before beginning discourse on the management of small businesses at present and in the future, it is first necessary to identify the characteristics of the current recession.

Some recessions result from cyclic factors while others are rooted in structural causes. Recessions due to cyclic factors will recover in the short or the mid-term. The current recession is due in part to cyclic factors, but its recovery is delayed by the after-effects of the collapse of the bubble economy.

At the same time, the current recession is also marked by structural change, and a substantial change at that—an end to the age of mass production which lasted for almost a century.

Developed nations suffered a severe depression in the 1890s, or almost exactly a century ago. What emerged from this depression were big businesses, and this was closely followed by developments in mass production after the turn of the century. By the years following WWII, the big business sector was firmly established. It seemed that this trend toward bigger and bigger corporate entities will never end.

About a decade ago, however, many scholars began to point out the end to the age of mass production, and the advent of an age of "small-scale wide-ranging production," i.e., producing a wide variety of items, each in relatively small quantities. It is true that mass production has reduced the costs of production, and served to meet the demands of many. However, for consumer goods, mass production proved capable of only meeting the most basic of many different requirements, and was never able to truly satisfy individual and personal preferences. Moreover, mass produced goods have now essentially saturated their respective markets, resulting in a consumer-driven, or a mature, market.

In order to satisfy individual demands, markets will necessarily become more fragmented, resulting in more small-scale wide-ranging production. This tendency will also strongly affect the retail industry. This trend will become particularly conspicuous in developed nations.

Such a structural change of historical magnitude is obviously disadvantageous to big businesses. Unless they develop new areas of business, they can expect no further growth. Yet, big businesses are not particularly suited to develop new business opportunities. There is a limit to the risks that employees of big businesses could take in trying to develop new areas

of business. This is the primary reason why big businesses have been unable to take any action of significance to overcome the current recession, and the reason why the recession has been protracted.

Turning to the U.S., big businesses there are also markedly stagnant. Only a handful have been able to regain their pre-recession standing. The recovery of the U.S. economy owes much to the success of small businesses in opening up new industrial opportunities.

Globalization of Economic Activities

Structural change in the Japanese economy is accelerated by the increased globalization of economic activities. "Globalization" means the de facto elimination of national borders leading to "border-less" economic activities. Individuals may now conduct economic activities at scales far greater than before with enhanced means of communication and transportation, and such spheres of activity have completely enveloped the globe.

There are already such organizations as the European Union (EU) and the North American Free Trade Agreement (NAFTA) that integrate multiple national markets. An East Asian economic sphere already exists in practice. Furthermore, with the dissolution and transformation of socialism, market economies and democracies have spread worldwide.

Therefore, economic changes at the global level will immediately have its effects on the Japanese economy in general, and specifically on individual enterprises.

Of particular importance to Japan is its positioning within the East Asian economic sphere. Unlike the EU and NAFTA which were organized with a deliberate effort, the East Asian economic sphere has spontaneously evolved out of a free trade base. Over the last ten years, ASEAN countries have achieved significant economic growth, and inter-industry relations have strengthened among ASEAN member nations, NIES and Japan. More recently, China has joined this network.

From the Japanese viewpoint, Japanese direct investments in ASEAN countries expanded quickly during the period of the rising yen beginning September 1985, and Japan's imports from these countries also increased markedly. With the further strengthening of the yen beginning 1993, Japanese interests have turned to direct investment in China.

These increases in direct overseas investments and import are creating significant problems for Japanese small businesses. Large corporations have increased overseas production, while decreasing orders placed with subcontractors in Japan. Increased imports are also squeezing small manufacturers. Furthermore, since most imports follow the "develop-and-import" formula (Japanese companies plan and develop products; they are manufactured in ASEAN countries and China, and exported to Japan), small Japanese wholesalers and retailers are also affected. The transfer of production bases overseas is already in progress in the manufacturing sector.

Moreover, South American nations have now entered a period of high growth, paving the way to an age of truly global competition.

Changes in Industrial Structure and Industrial Location

As above, the market is becoming increasingly fragmented, and the trend is toward small-scale wide-ranging production. Moreover, the strengthening of the yen has made the costs of Japanese industrial production high in international comparison. Therefore, Japanese manufacturers must produce higher value-added items to absorb the extra costs. Only industries that can produce high value-added goods will be able to profitably locate themselves in Japan.

This means that any industry will come to depend on both exports and imports, because high value-added items will be exported and low value-added goods imported. There may be some cases where high value-added products will be imported from other developed nations. Importing of mass-produced goods may also increase.

On the other hand, there are still some promising areas of growth in Japanese industry. Since the demand will become more individualized in the future, industries that can successfully meet more diverse requirements will grow. At the same time, greater emphasis will be placed on "quality of life," and consumers will likely become more conservative. Sectors serving environmental, health and safety needs will likely grow.

Demand for services will likely increase at a rate greater than the demand for goods. Demand for intellectual services will also grow, and so too will demand for health care and related services with the coming aging of society.

Whatever its actual form, it is certain that the market will become further fragmented into more diverse niches. The Japanese term often chosen as a translation for "niche" is "gap," but this is obviously not an accurate translation. A niche market refers to a segment of an increasingly fragmented market. The total market will therefore be an agglomeration of niche markets. As a result, emphasis will be on economies of scope rather than on economies of scale. It will become particularly important for each individual enterprise to enhance its expertise, and to be active in more than one area.

Incidentally, the growing globalization of economic activities has brought about changes in industrial location. Many locally-based industries are shifting production overseas. At the same time, industries previously attracted to an area are also now moving to East Asia. Industrial withdrawal is particularly conspicuous in communities where industries were first attracted by low land prices and wages. This tendency is especially prevalent in the Tokyo-Yokohama industrial belt, where the costs are already considerably high.

By contrast, new opportunities are emerging in Western Japan, whose closer ties to East Asia places the region at an advantage. Areas along national borders might also benefit from a "reversal of frontiers."

Challenges to Small Businesses

What the challenges faced by small businesses in this time of transition? Experience

alone will not lead to a true understanding of the significance of this transition— understanding of field— level information is also required to anticipate the likely direction of change. For such an understanding, basic theoretical knowledge is essential.

During a period of transition, it is important to take risks and actively seek changes. During a process of change, an enterprise may lose its traditional business base, but it may also discover new business opportunities. As a result, possibilities for "innovations" will increase. By innovation, it could refer to any number of things. Innovative technologies could lead to the development of new products or production processes, and there could be new marketing approaches, new forms of business or new organizations. Some innovations may offer opportunities for breakthrough technologies, while others may lead to new ideas on how to improve something that already exists. At any rate, differentiation of corporate identity will take on decisive significance in competition.

Incidentally challenges posed to the managers of small businesses differ from industry to industry. Consider those in the manufacturing, trade and service sectors.

In the manufacturing sector, small businesses of any type, whether development— minded or processing technology— oriented, must seek self— reliance. Many big corporations have become mature, and have lost a sense of direction along which they should further develop. Only a handful have been successful in new areas of business and accomplished post— maturity growth. As a result, the status of small businesses dependent on large corporations will become even more precarious in the future. To grow, small businesses must develop unique products and production techniques, and thereby differentiate themselves from the competition.

In developing any new product, companies must "serve each individual customer," taking the customer's point of view. This requires two— way communication with the customer. Companies must incorporate into product design the customer's needs. In other words, product development must be conducted jointly with the customer from its initial stages. In this way, many enterprises have emerged in Japan as the national or world leaders in their fields, though in a modest scale. Many others have also successfully established niche markets.

During the Reagan administration, it was small businesses that filled the production vacuum left by big businesses, and they have grown to become significant entities in their own right with economic recovery. *Business Week* has dubbed these manufacturers the "mini— nationals." * The implication is that they, though small, are representative corporations of the nation. The characteristics of these companies can be summarized into the following five points.

- 1 KEEP FOCUSED. Concentrate on being No. 1 or No. 2 in technology niches. Don't compete in commodity products.
- 2 STAY LEAN. Lean headquarters structures save money. But they also speed decision— making.

- 3 COMB THE WORRLD. Take ideas and technologies wherever you find them and apply them globally.
- 4 TAP THE FOREIGNERS. Use foreigners to manage offshore units, and bring them into senior positions at home as well.
- 5 SOLVE THE CUSTOMER'S PROBLEMS. Design products for customers— even invite them to the lab. Don't try to fob off existing standardized products.

Companies with such characteristics have already emerged in Japan as well. They share with their American counterparts their status as new businesses of a new era.

In the trade sector, both wholesalers and retailers must adapt themselves to the individualization of demands and to small-scale wide-ranging production. Since distributors are intermediaries between consumers and producers, they must discover latent demand and fill any supply-demand gap. At the same time, it is indispensable that they develop new forms of business. Many specialized forms of business, especially, will likely emerge in the future. A "specialized" business in this context refers to businesses with a specialized function. therefore, specialized trade businesses will encompass not only specialty stores but also convenience stores, various discount stores and home centers. Many other specialized businesses are possible. Traditional specialty stores can also develop new forms of specialization. Thus distribution channels will likely become thinner and shorter, but also diverse.

In the service sector marketing and R&D will take on even greater significance, and new businesses will provide intellectual services or specialized services (or both). Of particular importance are new types of system houses that conduct R&D, extensively procure devices and parts both domestically and internationally, assemble, and market the products together with software. They form a new developing-assembling industry that also manufacture, characterized by small-scale production of diverse high value-added goods. The amount of software needed in the fields of education, culture and entertainment will also increase with the development of multimedia, and here again "intelligence" is essential. Other potential developments include the privatization of social services with the coming aging society. In this field, ideologies will likely be most important—pursuit of profit will probably be secondary to the provision of quality services in ensuring high eventual return.

Restructuring of Small Businesses

For small businesses, restructuring should be perceived as a "second founding," and top management must identify clearly its accompanying problems. In choosing a new area of business to enter, particular importance should be attached to field-level information. Since such information is borne by individuals, management must make constant effort to build up high quality human resources. Specific guidelines are to be gained through "problem solving." A business leader can first ask himself if there are any immediate problems. He may then turn

his sights to potential problems regarding his clients, and then to possible problems caused by new developments, and finally to problems that will come to be associated with growth. A careful search through such problems will often turn up unexpected ideas.

There are many ways to solve any of the problems thus identified. Businesses could be guided by demand, with necessary technologies developed later. Specialists could be scouted, or they could be found through tie-ups with another company. Talented personnel can be attracted if the best conditions are offered. Older employees of big businesses are useless for small businesses in general, but it must also be remembered that there are always the experienced and knowledgeable few, not always thought of favorably by their employers. These people must be identified and their resources made use.

Joint research by companies in different sectors is also useful. A "strategic alliance" between two friendly companies is the most realistic. Alliances help to expand the range of each partner's technologies, and will thus broaden the potential lines of business accordingly. Collaboration between a manufacturer and a trade/service firm will also be fruitful, because of the emphasis that will come to be placed on developing-assembling industries. It is important to actually put into practice even ideas that seem minor.

* *Business Week, Sept. 6, 1993*