

THE PROBLEMS OF "LITTLE BUSINESS" IN THE JAPANESE MANUFACTURING INDUSTRY

By TOKUTARO YAMANAKA

Professor of Economic Policy and Labor Problems

I

In spite of the rapid growth of her monopolistic enterprises Japan is known for the continual existence of a large number of "small-medium business" (as they are generally called in this country instead of "small business"). During the period of 1950-55, for instance, when the volume of employment in the whole manufacturing establishments increased by 28.6 per cent., small establishments each employing 1-3 workers showed an increase of 38 per cent. in their total employment, those with 4-49 employees an increase of 33 per cent., and those with 50-199 employees an increase of 39 per cent., whereas the increase in employment in big establishments each employing more than 200 workers was about 18 per cent.¹ From these figures it appears that small business made greater progress than big business did in the volume of employment.

The numbers of establishments of the smallest size and their employees are shown in Table 1. Employees in small establishments, unlike those in the whole manufacturing establishments, do not show a steady increase in their number, and those in establishments of the size of 4-9 employees reveal a considerable degree of fluctuation in this respect. These tendencies of stagnation and fluctuation are most manifest in the number of establishments themselves.

Table 1. *The numbers of "little" manufacturing establishments and their employees*²

	Number of employees (1=1000 persons)			Number of establishments (1=1000 establishments)		
	1-3	4-9	All sizes	1-3	4-9	All sizes
1950	460.4	514.6	4261.3	196.3	86.1	352.6
1951	481.9	539.8	4740.7	227.3	88.0	393.7
1952	496.7	527.9	4815.7	280.2	85.4	398.4
1953	512.6	518.3	5180.2	233.1	82.3	405.7
1954	544.9	564.5	5285.2	245.9	89.6	430.4
1955	552.9	549.1	5516.9	245.5	85.5	432.7
1956	541.3	547.8	6047.6	237.8	84.3	433.3

Indeed, it cannot be denied that the impact of trade cycle influenced the above figures to some extent. Yet, in 1956 no less than a million workers, that is to say, one-sixth of

¹ *Census of Manufactures (Japan), 1950-1955.*

² *Census of Manufactures (Japan), 1950-1956.*

six million employed in the whole manufacturing establishments were employed in those of the size of 1-9 employees. In the same year, of the whole manufacturing establishments of over 430,000, more than 230,000 were of the size of 1-3 employees, and more than 84,000 of the size of 4-9 employees. In short, small establishments each with less than 9 employees amounted to more than three-fourths of the total.

At the moment the trend of the increasing working population in Japan is such that it would require an average increase of about a million every year in the volume of employment just to maintain its present level, and this trend would continue for a considerable length of time.³ In view of this heavy pressure on employment from population and in view also of the fact that establishments of "little" size are most prominent both in their number and in the number of their employees and that there will not be any noticeable change in their preponderant position in the whole manufacturing establishments, the question of under what conditions these establishments exist would certainly constitute an important problem for the future development of Japanese economy.

All our effort has so far been directed to the adoption of proper measures to deal with the problems of "small-medium" business as an entity.⁴ Nowadays, however, our attention is increasingly being paid to the need for finding out the upper and lower limits of "small-medium" business, differentiating "little" business from others, and adopting remedies for various sores from which it suffers.

The new departure in the study of "little" business had long been delayed for lack of sufficient materials to analyse its economic conditions objectively, although the numbers of their establishments and their employees and the amount of their production had been known. In 1957, however, a really epoch-making statistical investigation of small manufacturing industries was carried out by the Government, the results of which, published in the summer of 1959, rendered it possible for the first time to make a new analysis and evaluation of manufacturing enterprises of various sizes including "little" business.⁵ A committee, of which I was chairman, provided fundamental rules and programmes for this governmental investigation which has the noteworthy characteristic of being a survey of "business" itself, unlike its predecessors which dealt only with "establishments." In the monthly journal of my university (the *Hitotsubashi Ronso*)⁶ I have already published results of my own analysis of "little" business based on the latest survey. The present article contains some of these results.⁷

II

"Little business", in my view, does not merely imply business of extremely small size. I am of the opinion that the difference in size of business in itself is of little account,

³ See my article, "Prerequisites for Japanese Economy and Small-Medium Industry", *Annals of the Hitotsubashi Academy*, VII, 2 (April, 1957).

⁴ See my article, "The Nature of Small Industries: A Survey of the Economic Interpretation in Japan", *Annals of the Hitotsubashi Academy*, IV, 1 (Oct., 1953).

⁵ *Chusho-Kigyo Sogo Kihon Chosa (General Business Statistics of Small Manufacturing Business)*, 1957 (Japan), 8 Vols. 1959.

⁶ No. 5, Vol. 42, Nov. 1959.

⁷ This article is written originally in English in order to be published in Spanish by the demand of the *Boletín de Estudios Económicos* of la Universidad Comercial de Deusto, Bilbao, Spain. Its Spanish version, "Los Problemas de los Pequeños Negocios en la Industria Japonesa," is published in the bulletin No. 49, 1960. I would thank the editor of the above journal for his kind permission to publish it here in English.

as the determining factors of size vary from one industrial branch to another. The reason why "little business" should be distinguished from others as the object of a special analysis is that its size is extremely small and it has some distinctive features in its quality that would enable it to be differentiated from all others.

Generally speaking, a business, no matter how big or small it may be, should have: minimum conditions essential for its existence, such as economic calculation of capital, optimum size and organisation, capacity for capital formation and accumulation, the maintenance of expanding re-production through production, sale, and return, simultaneous existence of internal and external economies. The first condition for the existence of a business, however, is the adoption of a system of economic calculation of capital. The group of business which I regard as "little" and which as a result should be differentiated from all other business lacks in this first condition. Enterprises of the size of less than 9 employees are mostly found to belong to this group.

a

The condition that a modern business should have a system of economic calculation requires, first of all, separation of this system from domestic economy of its proprietor.

The degree of this separation corresponds to the size of business measured by the number of employees. It amounts only to 20.5 per cent. among enterprises of the size of 1-3 employees, but thereafter sharply increases and already reaches 59.5 per cent. among those of the size of 4-9 employees, 81.1 per cent. among those of the size of 10-19 employees, 90.3 per cent. among those of the size of 20-29 employees, and 94.6 per cent. among those of the size of 30-49 employees. In other words, enterprises of the size of 4-9 employees provide a line of demarcation, and from this it can be concluded that domestic economy and business management are at least on the surface separated from each other in enterprises of the size of over 10 employees.

The above conclusion, however, should be modified by special circumstances existing among various branches of industry. Those industries which deal with food and kindred products, electrical machinery, equipment and supplies, and machinery (except electrical) show a similar tendency to that average which exists among the whole industry shown above. The degree of separation, however, is rather low among textile mills and industries dealing with leather and leather products, where enterprises of the size of over 10 employees still show a considerable degree of non-separation. Although differences among various branches of industry cannot be ignored, we can conclude from the above observation that it is difficult to define as business these enterprises of the size of less than 9 employees, most of which do not separate business management from domestic economy.

b

In the second place, a modern business is naturally expected to equip itself with a system of book-keeping in order to clarify its economic calculation, ascertain causes and occasions of profit and loss, and elaborate future plans of business management.

Nevertheless, only 41.3 per cent. of enterprises of the size of 1-3 employees are provided with book-keeping. Yet, the degree of books being kept increases to 80.1 per cent. among enterprises of the size of 4-9 employees, where those which keep books are already predominant. This degree further increases to 94.6 per cent. among those of the size of 20-29 employees, and 99.2 per cent. among those of the size of 30-49 employees, where book-keeping is almost customary.

There are again considerable differences among various branches of industry. As many as 65 per cent. of textile mills of the size of 1-3 employees do not adopt book-keeping, whereas only 48 per cent. of enterprises of the same size, dealing with machinery (except electrical), electrical machinery, equipment and supplies, and food and kindred products, are not equipped with book-keeping. On the whole, however, book-keeping appears to penetrate more deeply into "little business" than separation of domestic economy and business management.

Yet this is not necessarily true if by book-keeping we mean the double-entry system, single-entry book-keeping being inadequate for correct calculation of profit and loss. In fact, the degree of double-entry book-keeping being adopted by enterprises is even smaller than that of separation of domestic economy and business management: 45.4 per cent. among those of the size of 4-9 employees, and 71 per cent. among those of the size of 10-19 employees; of the enterprises of the latter size, 66 per cent. among textile mills, 74 per cent. among those dealing with food and kindred products, 76 per cent. among those producing electrical machinery, equipment and supplies, and 78 per cent. among manufacturing of machinery (except electrical). In short, a line of demarcation can be drawn with the size of less than 9 employees as it is in the case of separation of domestic economy and business management.

The latest survey of industry, however, was carried out in the form of questionnaires, and consequently it is not necessarily ensured that those who filled up these questionnaires did understand what was meant by separation of the two different systems, domestic economy and business management. Therefore, institutionalisation of this principle is often doubtful even when an affirmative reply was given. In a similar way, book-keeping in many cases does not constitute an essential condition for the existence of business, for it is often entrusted to a chartered accountant merely for the purpose of providing evidence necessary for the decision of the amount of taxes to be paid. As a result, it should be noted, the above figures must have been more or less exaggerated.

c

In the third place, the human side of a business should be considered. Indeed, division of management and labour is essential for proper conduct of economic calculation. When this division of labour remains incomplete, we have to face problems caused by the existence of the two types of workers; the working proprietor and the family worker.

The working proprietor is a manager, but at the same time is engaged in productive work. Consequently, his function cannot definitely be classified either way. Taking the whole enterprises into account, we find that 87 per cent. of those of the size of 1-3 employees, 82 per cent. of those of the size of 4-9 employees, 70 per cent. of those of the

size of 10–19 employees, and 57 per cent. of those of the size of 20–29 employees are under the management of working proprietors. The proportion is unexpectedly high even with those of the size of 30–49 employees, which is 43 per cent. Again it varies from one industry to another. In textile mills and manufactories of food and kindred products, the proportion goes beyond 50 per cent. only with enterprises of the size of 20–29 employees, whereas the proportion of 50 per cent. is reached with enterprises of the size of 30–49 employees in industries dealing with machinery (except electrical) and electrical machinery, equipment and supplies.

There is a view that business cannot firmly establish itself with a high proportion of the existence of working-proprietors. This view, however, cannot be accepted, for, as we have seen, the proportion is high with those industries which adopt advanced technique and show a high degree of mechanisation. In highly industrialized countries, such as Britain, working-proprietors also exist to a considerable extent.

On the other hand, the existence of family workers—members of the proprietor's family who are normally employed but not regularly paid—is a sign indicating the fact that an important condition for the existence of a business is seriously undermined. It had been known that only those manufacturing establishments with not more than 9 employees depended largely upon family workers. The latest survey gave similar results for enterprises. In other words, enterprises of the size of more than 4 employees mostly cease to depend upon family workers and begin to adopt a system based on wage-labour.

d

The consideration of the human side of small business leads to the question of power, electrical, steam or oil, which combines human factors. Indeed, the classical theory of small business insists that the absence of machinery and equipment represented in power is truly characteristic of small business. In Japan there are some enterprises of the size of more than 1000 employees which do not use power at all; yet it is noteworthy that the proportion of those of the size of 1–3 employees which do not use power is only 40 per cent. The proportion decreases as the size of enterprises becomes larger: 12 per cent. for those of 4–9 employees, only 7 per cent. for those of 10–19 per cent. Of the whole enterprises, only 97,000 do not use power, and 79,000 of these enterprises are of the size of 1–3 employees. This proportion of the size of 1–3 employees which do not use power, too, varies from one industry to another: 25 per cent. for the industry producing electrical machinery, equipment and supplies; less than 7 per cent. for that dealing with machinery (except electrical); nearly 40 per cent. for the food industry; and more than 75 per cent. for the textile industry.

Meanwhile, total horse-power per man-month remains roughly same, that is to say, from 0.01 to 0.02 horse-power, with enterprises of the size of 1–3 to 200–299 employees, although it sharply increases for those of the size of more than 300 employees. Consequently, it is rather difficult to distinguish "little business" in this respect.

Indeed, power alone indicates only one aspect of the composition and equipment of capital goods owned by enterprises. The amount of fixed assets calculated per head of employees varies a great deal between large- and small-scale enterprises, and this is

another and very important aspect which the latest survey for the first time made clear by giving significant figures.

The amount of fixed assets (the estimated sum of fixed assets which is used for taxation) per head of employees is ¥93,000 with those of the size of 1-3 employees, ¥97,000 with those of the size of 4-9 employees, ¥90,000 with those of the size of 10-19 employees, ¥97,000 with those of the size of 20-29 employees, and ¥102,000 with those of the size of 30-49 employees. In other words, it is roughly from ¥90,000 to 100,000 and does not sufficiently reflect the difference in the size of enterprises. The amount of the same, however, stands at ¥136,000 with those of the size of 50-99 employees, which shows an increase by 30 per cent., and ¥233,000, or about twice as much, with those of the size of 200-299 employees. Further, it increases and is ¥345,000 with those of the size of 300-499 employees, ¥446,000 with those of the size of 500-999 employees, and ¥768,000 with those of the size of over 1000 employees. So far as the amount of fixed assets per head of employees is concerned, there seem to be several strata such as enterprises of the size of 1-49 employees, those of the size of 100-299 employees, those of the size of 500 employees, and those of the size of 1000 employees. Yet among those of the size of 1-49 employees, "little business" does not differ much from other business.

Fixed assets consist of three elements: land, building and redeemed properties. The proportion of land and building in the total amount of fixed assets considerably varies according to the size of enterprises: 86 per cent. for those with 1-3 employees, 71 per cent. for those with 4-9 employees, 59 per cent. for those with 10-19 employees, 52 per cent. for those with 20-29 employees, and 50-40 per cent. for all those with more than 30 employees. From this it is clear that equipment for production other than land and building is rather scarce in enterprises of the size of 1-13 or 4-9 employees. Thus "little business" of the size of less than 9 and especially less than 3 employees retains much of the characteristics of handicraft, showing no adequate signs of adopting the mode of employing capital which can be called "modern".

III

From various indications shown above it may be said that roughly speaking enterprises of the size of 4-9 employees and especially those of the size of 1-3 employees can be distinguished from other "small-medium business" in the sense that they lack in essential qualities required for a business. We can call this group of enterprises "little business".

Such an enterprise, as we have seen, exists under inferior conditions, and results of its activities as a going concern often reflect this inferiority, as are shown in Table 2.

As we have seen, enterprises of the size up to 30-49 employees show almost no increase in the amount of fixed assets per head of employees, although the number of employees increases with an increase in the size of enterprises. Yet, results gained from the employment of men and fixed assets considerably vary according to the size. Gain by business shown in Table 2 is calculated in the following way; cost of all materials, cost of energy such as coal, oil, and electricity, and cost of pieces put out or contract work are deducted from value of shipment; the residue will be value added, from which is again deducted the amount of cash payment in the form of wages; the result will be gain by business. Value

Table 2. *Business index per head of employees*

Size (Number of employees)	Fixed assets	Gain by business	Wage per man
1-3	100	100	100
4-9	104	200	111
10-19	96	300	123
20-29	104	350	133
30-49	109	425	133
50-99	146	550	144
100-199	196	675	155
200-299	250	775	177
300-499	371	1025	188
500-999	479	1150	211
1000-	825	1400	277

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thus obtained may be sufficient to show economic results of enterprises of different sizes, though it does not take into consideration cost of capital depreciation and overhead charges and can be regarded as inadequate in this respect. Although the amount of fixed assets per head of employees remains roughly same with enterprises of the size of less than 50 employees, gain by business per head of employees vary a great deal among enterprises of this size: gain in enterprises of the size of 4-9 employees is twice, of the size of 10-19 employees three times, and of the size of 20-29 employees four times, as much as that in those of the size of 1-3 employees. In other words, gain by business among those of the size of 4-9 and especially of 1-3 employees is extremely small, and cannot possibly be compared with that in those of the size of over 50 employees. The amount of wages shows a similar tendency, though differences in it are not so big as they are with gain by business: the amount of wages paid in enterprises of the size of 1-3 employees is lower than that in those of the size of 20-29 employees by about 30 per cent.

Differences among manufacturing establishments, which had been made clear at the time of previous surveys of industry, were already big enough. The difference between establishments of the size of 10-19 employees and those of the size of more than 1000 employees is 36:100 in per man value added, and 45:100 in wage per man. Differences thus shown were nearly six or seven times as much as those calculated from similar sources in Britain and the United States.⁹ Differences now obtained from new sources which deal with enterprises of the size as small as 1-3 employees are found to be even greater than before. The difference between enterprises of this smallest size and those of the size of 10-19 employees is very great, and the former group is much inferior even to the latter group of small enterprises.

⁸ *General Business Statistics of Manufacturing Business* 1957, 8 Vols., 1959. Index number: 1-3 business=100. Wage per man is the total sum of wages paid divided by the number of wage labourers. Other figures are results divided by the number of all employees.

⁹ See my article, "Illogicality" in Japanese Small Business", *Annals of the Hitotsubashi Academy*, X, 2 (Dec., 1959).

IV

The above evidence concerning "little business" only shows its existing conditions, and does not explain causal relations of its various factors. My analysis does not deal with differences in various branches of industry, and as such, is rather incomplete. Even admitting these defects, however, I may say that there exists in Japan a group of enterprises which under the name of "little business" should be differentiated from other enterprises and even from other small business.

This differentiation is of significance, for these enterprises provide employment for a large number of men and women and still lack in conditions necessary for a modern business, and consequently both business and labour are struggling with inferior conditions in which they find themselves.

In Japan, attention has been drawn to the problems of "small-medium business" ever since the 1920s, and various economic policies such as financial measures and trade co-operation have been adopted. Even a certain educational policy intended for improvement in business management has lately been introduced, and the spread of the practice of book-keeping, which we have seen, can be regarded as a result of this educational policy.

Nevertheless, little attention has been paid to the need for special policies for "little business". Indeed, a Minimum Wage Act was passed in April, 1959, but it deals with labour employed in "little business" rather than with "little business" itself. In order to set up adequate economic policies for "little business", it is imperative to find out real conditions of "little business" in various branches of industry, to improve its conditions, though not big in its size, up to the standard of a normal business, to set up a system of co-operation that would suit these enterprises in their actual conditions, and to add social policies to economic measures. These are probably minimum requirements for policies intended for "little business".