2022 White Paper on Small and Medium Enterprises in Japan

(Summary)

April 2022
Small and Medium Enterprise Agency
• SMEs continue to face challenges associated with COVID-19, which has been spreading for two years, and surging oil and raw material prices, as well as supply restraints such as material and parts procurement issues and labor shortage.

• Despite these severe conditions, some SMEs are implementing initiatives toward achieving future growth while ensuring their survival through business restructuring, based on a keen awareness of changes in the supply-demand structures of the SME sector as well as trends such as digitalization and carbon neutralization.

• Themed around business self-transformation, this whitepaper presents the essential initiatives for businesses in the COVID phase and post-COVID phase.

• More specifically, it analyzes what kind of initiatives (e.g., business restructuring) are necessary in order for SMEs aiming to evolve into medium-sized enterprises or to become core players in the supply chain (scale-up enterprises) in the short to medium-term and sustainable growth-oriented small businesses that support the local economy (power-up enterprises) to be able to take on new challenges.

Table of Contents (list of analysis themes)

1. How SMEs Are Dealing with the Current COVID Situation

2. Management Capabilities and Organization That Encourage Enterprise Growth (Scale-up Enterprises)

3. Small Businesses Reviewing Their Business and Solving Local Issues (Power-up Enterprises)

As of February 2022, the COVID-19 pandemic continues to impact a large number of SMEs.

**Fig** Impact of the COVID-19 pandemic on business activity

- **Still being impacted**: 73.8%
- **Impacted but have already recovered**: 13.8%
- **Have not been impacted but may be in the future**: 6.7%
- **No impact**: 5.8%

Source: Tokyo Shoko Research, Ltd., “20th COVID-19 Questionnaire Survey” (February 2022)

Note: the survey covers enterprises with less than 100 million yen in capital.
Sales of many enterprises in 2020, especially in the **Accommodations and Food services sectors**, were significantly lower compared to pre-COVID levels.

**Fig**

**Consumer spending trend by sector**

Source: Created by the Small and Medium Enterprise Agency based on Nowcast, Inc./JCB Co., Ltd., “JCB Consumption NOW” (as of Feb 28, 2022)

Notes:
1. Shows increase/decrease from the averages from the same period in 2016 to 2018.
2. The periods of declaration of state of emergency and semi-emergency coronavirus measures are those for Tokyo and the prefectures of Saitama, Chiba, and Kanagawa.
In recent years, SMEs have begun to become more actively involved in SDGs initiatives.

Fig SDGs initiatives by SMEs

<table>
<thead>
<tr>
<th>Survey</th>
<th>(n=5,677)</th>
<th>(n=9,389)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2019</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>24%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>36%</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td>30%</td>
<td>23%</td>
</tr>
</tbody>
</table>

- Want to improve current SDGs initiatives even further
- Want to continue current SDGs initiatives
- Want to consider SDGs initiatives going forward
- Want to implement SDGs initiatives but do not know the specific steps to take
- No plans to implement SDGs initiatives

Source: Daido Life Insurance Company, “Daido Life Insurance Survey” (October 2021 survey)
The priority of digitalization has grown gradually each year since before the pandemic. Enterprises that give high or moderately high priority to digitalization in their business policy have increased by more than 20%.

**Graph:** Priority given to digitalization in business policy

1. **Before the pandemic (2019)**
   - High priority: 9.1%
   - Moderately high priority: 31.2%
   - Moderately low priority: 33.7%
   - High priority in business policy: 21.9%
   - Do not know: 4.1%

2. **During the pandemic (2020)**
   - High priority: 15.9%
   - Moderately high priority: 40.4%
   - Moderately low priority: 25.8%
   - High priority in business policy: 14.4%
   - Do not know: 3.4%

3. **Present (2021)**
   - High priority: 20.9%
   - Moderately high priority: 41.6%
   - Moderately low priority: 22.4%
   - High priority in business policy: 11.9%
   - Do not know: 3.2%

4. **Future (assuming the pandemic has ended)**
   - High priority: 25.1%
   - Moderately high priority: 40.9%
   - Moderately low priority: 18.8%
   - High priority in business policy: 10.3%
   - Do not know: 4.9%

Source: Tokyo Shoko Research, Ltd., “Survey on SME Digitalization and Information Asset Utilization” (December 2021)
Some enterprises have restructured their business during the pandemic and are already seeing an improvement in sales. The enterprises that took action at an early stage are the ones that are starting to feel the benefits.

**Fig. 1** Improvement in sales due to business restructuring

- **34.9%** Already seeing improvement
- **26.4%** No improvement yet but expecting to see it within a year
- **34.7%** No improvement yet but expecting to see it within a few years
- **3.7%** Unlikely to see any improvement
- **0.3%** Already withdrawn from the business

**Fig. 2** Improvement in sales by implementation period of business restructuring

**Before December 2020**
- **43.3%** Already seeing improvement
- **20.2%** No improvement yet but expecting to see it within a year
- **32.5%** No improvement yet but expecting to see it within a few years
- **3.8%** Unlikely to see any improvement
- **0.3%** Already withdrawn from the business

**After January 2021**
- **21.1%** Already seeing improvement
- **36.6%** No improvement yet but expecting to see it within a year
- **38.6%** No improvement yet but expecting to see it within a few years
- **3.3%** Unlikely to see any improvement
- **0.4%** Already withdrawn from the business


Notes:
1. Both questions are for enterprises that said they have already begun business restructuring. As referred to here, business restructuring means offering new products or changing the way products are offered.
2. Note that the respondents include enterprises that have not applied for the Business Restructuring Subsidy.
Enterprises engaging in business restructuring have not only seen an improvement in sales but also seen synergy (e.g., utilizing newly developed sales channels in existing businesses) with their existing businesses.

**Fig** Non-sales benefits due to business restructuring

Source: Tokyo Shoko Research, Ltd. “Survey on SME Management Philosophy and Management Strategy” (December 2021)

Notes: 1. Both questions are for enterprises that said they have already begun business restructuring. As referred to here, business restructuring means offering new products or changing the way products are offered.
2. Note that the respondents include enterprises that have not applied for the Business Restructuring Subsidy.
Brand building, which is a type of intangible investment, creates unique added value and helps enterprises gain the pricing power necessary to establish fair prices.

Enterprises that engage in brand building and maintenance tend to see a greater contribution of their house brand to trade prices.

Source: Tokyo Shoko Research, Ltd. “Survey on SME Management Philosophy and Management Strategy” (December 2021)

Notes: 1. As referred to here, brand means the general image customers have of a company and its products and services.
   2. The question asks whether house brands contribute to raising or maintaining trade prices.
Brand building and maintenance should involve not only promoting house brands but also efforts such as clarifying brand concepts and improving brand awareness among employees.

**Fig** Implementation of brand building and maintenance

- Promoting house brands to customers and society: 48.8%
- Identifying the position of the house brand: 42.0%
- Clarifying the brand concept (target, value proposition): 38.0%
- Improving brand awareness among employees: 36.4%
- Developing products and services based on the brand concept: 30.2%
- Assessing and analyzing house brand value: 25.1%
- Revising and rebuilding the house brand: 20.9%
- Other: 1.8%

*(n=1,896)*

Source: Tokyo Shoko Research, Ltd. “Survey on SME Management Philosophy and Management Strategy” (December 2021)

Notes:
1. The question is for enterprises that said they engage in brand building and maintenance.
2. The total is not 100% because it is a multiple answer question.
As SMEs place much value on people as a management resource, they need to engage in employee skill development. This is important from the perspective of improving employee motivation as well.

**Fig. 1** Management issues that managers prioritize

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>82.7%</td>
</tr>
<tr>
<td>Expansion of marketing/sales channels</td>
<td>59.7%</td>
</tr>
<tr>
<td>Organization</td>
<td>39.8%</td>
</tr>
<tr>
<td>Development and improvement of products/services</td>
<td>37.3%</td>
</tr>
<tr>
<td>Finance</td>
<td>33.0%</td>
</tr>
<tr>
<td>Technology, R&amp;D</td>
<td>27.3%</td>
</tr>
<tr>
<td>Production, manufacturing</td>
<td>25.8%</td>
</tr>
<tr>
<td>ICT utilization</td>
<td>24.1%</td>
</tr>
<tr>
<td>Other</td>
<td>0.8%</td>
</tr>
<tr>
<td>None in particular</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

*(n=4,300)*

**Fig. 2** Employee motivation by enthusiasm for skill development

<table>
<thead>
<tr>
<th>Enthusiasm for skill development</th>
<th>Motivated</th>
<th>Neither motivated or unmotivated</th>
<th>Unmotivated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very enthusiastic (n=667)</td>
<td>87.6%</td>
<td>9.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Enthusiastic (n=2,744)</td>
<td>77.3%</td>
<td>18.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Unenthusiastic (n=797)</td>
<td>56.8%</td>
<td>32.2%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Very unenthusiastic (n=63)</td>
<td>42.9%</td>
<td>27.0%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

Source: Teikoku Databank, Ltd., “Survey on SME Management Capabilities and Organization” (December 2021)

Note: the total is not 100% because it is a multiple answer question.
Enterprises that conduct both systematic on-the-job training and off-the-job training show the highest rate of sales growth. Thus, it is essential to conduct systematic on-the-job training and off-the-job training to promote employee skill development.

**Fig**

Sales growth rate of enterprises that do or do not conduct systematic on-the-job training and off-the-job training

<table>
<thead>
<tr>
<th>Implementation of off-the-job training</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>9.5% (n=1,178)</td>
<td>6.2% (n=499)</td>
</tr>
<tr>
<td>No</td>
<td>7.9% (n=680)</td>
<td>3.4% (n=1,467)</td>
</tr>
</tbody>
</table>

Source: Teikoku Databank, Ltd., “Survey on SME Management Capabilities and Organization” (December 2021)
Note: the sales growth rates are based on comparing the medians from 2015 and 2020.
Small businesses are actively reviewing their business, regardless of organizational type or capital size.

### Small businesses reviewing their business by organizational type and capital size

#### By organizational type

<table>
<thead>
<tr>
<th>Type</th>
<th>Reviewed (n)</th>
<th>Not Reviewed (n)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietor (n=3,003)</td>
<td>76.1%</td>
<td>23.9%</td>
</tr>
<tr>
<td>Corporation (n=2,089)</td>
<td>86.0%</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

#### By capital size

<table>
<thead>
<tr>
<th>Capital Size</th>
<th>Reviewed (n)</th>
<th>Not Reviewed (n)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 million yen (n=87)</td>
<td>87.4%</td>
<td>12.6%</td>
</tr>
<tr>
<td>1 million to less than 3 million yen (n=301)</td>
<td>88.7%</td>
<td>11.3%</td>
</tr>
<tr>
<td>3 million to less than 5 million yen (n=695)</td>
<td>85.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>5 million to less than 10 million yen (n=441)</td>
<td>83.2%</td>
<td>16.8%</td>
</tr>
<tr>
<td>10 million yen or more (n=565)</td>
<td>87.6%</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community” (December 2021)

Notes:
1. The “Have reviewed the business” category includes small businesses that have engaged in at least one of the four specific initiative types related to reviewing their business since the start of the pandemic; the “Have not reviewed the business” category consists of small businesses that have not engaged in any of the initiative types.
2. The figures are from small businesses that said the pandemic has had a moderate or significant negative impact on sales.
Small businesses trying to review their business are facing challenges such as the following: lack of knowledge and knowhow, developing and securing sales contacts, raising funds, and securing human resources.

Challenges faced by small businesses when reviewing their business

- Lack of knowledge and knowhow: 30.9%
- Developing and securing sales contacts: 27.9%
- Lack of personal funds: 26.7%
- Raising funds: 25.7%
- Securing human resources: 19.9%
- Lack of information gathering skills: 17.8%
- Did not know how to create a business plan: 14.0%
- Securing stable suppliers: 8.3%
- Securing alliance partners: 4.3%
- Management of existing businesses was neglected: 2.9%
- Other: 3.6%
- None in particular: 12.5%

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community" (December 2021)

Notes: 1. The total is not 100% because it is a multiple answer question.
2. The question asks what kind of challenges the small businesses faced when engaging in their most important initiative for reviewing their business.
Small businesses that consulted a support organization when reviewing their business have higher expectations for sales growth compared to those that did not.

**Fig**
Expectations for sales growth of small businesses that did or did not consult a support organization

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulted</td>
<td>26.3%</td>
<td>58.9%</td>
<td>13.0%</td>
<td>1.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a support</td>
<td>(n=2,927)</td>
<td>organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Did not consult</td>
<td>12.9%</td>
<td>52.1%</td>
<td>30.6%</td>
<td>4.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a support</td>
<td>(n=1,155)</td>
<td>organization</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community” (December 2021)

Notes: 1. The question asks small businesses whether they consulted a support organization when engaging in their most important initiative for reviewing their business, and their expectations for sales growth going forward.
2. The figures are from small businesses that said the pandemic has had a moderate or significant negative impact on sales.
Some small businesses that have reviewed their business due to reasons other than sales decline are making efforts to review their business from a medium to long-term perspective in anticipation of future market trends.

Fig: Reasons why small businesses decided to review their business (excluding sales decline)

- To respond to future sales decline and market contraction: 40.1%
- To enter markets with growth prospects: 27.1%
- Customer and consumer demands: 25.1%
- Contribution to the local community: 15.2%
- Intensified competition with competitors: 14.2%
- Contraction of existing markets: 13.7%
- Advice from external experts or support organizations: 13.3%
- Advice from fellow business owners: 8.9%
- To move away from being a subcontractor: 3.5%
- Other: 8.0%

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community” (December 2021)

Notes: 1. The total is not 100% because it is a multiple answer question.
2. The question asks small businesses why they decided to engage in their most important initiative for reviewing their business.
3. The results are based on the responses from small businesses that did not choose sales decline as one of the reasons for reviewing their business.
Initiatives such as joint product development with other businesses are expected to lead to positive business impacts, such as winning new deals and strengthening ties with trade partners.

### Positive business impacts due to business review achieved by small businesses that did or did not cooperate with other businesses

<table>
<thead>
<tr>
<th>Impact</th>
<th>Cooperated with other businesses</th>
<th>Did not cooperate with other businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Won new deals</td>
<td>51.5%</td>
<td>40.7%</td>
</tr>
<tr>
<td>Served as an opportunity to reconsider the company’s business</td>
<td>51.5%</td>
<td>41.2%</td>
</tr>
<tr>
<td>Developed ties with support organizations</td>
<td>37.5%</td>
<td>28.2%</td>
</tr>
<tr>
<td>Strengthened ties with existing trade partners</td>
<td>33.0%</td>
<td>26.5%</td>
</tr>
<tr>
<td>Developed ties with companies from other sectors</td>
<td>30.2%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Developed ties with companies in the same sector</td>
<td>29.0%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Identified the company’s management resources</td>
<td>21.1%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Led to human resource development</td>
<td>15.1%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Improved employee morale</td>
<td>13.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Led to new jobs</td>
<td>12.2%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community” (December 2021)

Notes:
1. The total is not 100% because it is a multiple answer question.
2. The question asks small businesses about the positive business impacts of their most important initiative for reviewing their business.
3. The results are based on the responses from small businesses that did not choose sales decline as one of the reasons for reviewing their business.
4. The number of responses are as follows: Cooperated with other businesses (n = 427), Did not cooperate with other businesses (n = 1,618).
When addressing local issues, small businesses do not need to work alone but can share their management resources with other businesses. Support organizations can introduce businesses to potential partners and also offer advice about how to cooperate with them. Therefore, businesses can utilize the networks and knowhow offered by support organizations to make their cooperative efforts even more effective.

### Fig: Cooperation-related support provided by support organizations

<table>
<thead>
<tr>
<th>Service Provided</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce businesses to potential partners or communities</td>
<td>59.4%</td>
</tr>
<tr>
<td>Provide advice regarding cooperation methods</td>
<td>49.6%</td>
</tr>
<tr>
<td>Participate in cooperation through providing funds and knowhow, etc.</td>
<td>23.9%</td>
</tr>
<tr>
<td>Personally organize events, etc., to provide exchange opportunities</td>
<td>19.2%</td>
</tr>
<tr>
<td>Other</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Questionnaire on SME Support Organizations’ Understanding of the Realities of SMEs and Small Businesses” (December 2021)

Notes: 1. The figures are from support organizations that said they were consulted by and provided support to or were not consulted by but provided support to businesses regarding cooperation.
2. The total is not 100% because it is a multiple answer question.
As much as 60% of enterprises that did not have opportunities to negotiate with their trade partners said they could not pass on costs to prices. **Therefore, enterprises need to negotiate with their trade partners in order to pass on costs to prices.**

### Fig
Whether enterprises that did or did not have opportunities to negotiate sales prices and unit prices with trade partners were able to pass on costs to prices in response to cost increases in general

<table>
<thead>
<tr>
<th>Had opportunities to negotiate (n=15,481)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13.8%</td>
<td>50.5%</td>
<td>35.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Did not have opportunities to negotiate (n=2,771)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.4%</td>
<td>28.9%</td>
<td>64.7%</td>
</tr>
</tbody>
</table>

Source: Tokyo Shoko Research, Ltd., “2021 Survey on Improvements in Transaction Conditions” (October 2021)
Notes: 1. The figures are based on questionnaire responses from businesses that receive orders.
2. Responses from enterprises that said there is no need to pass on costs to prices in response to cost increases in the past year are excluded.
The number of businesses that are working on improving operational efficiency through digitalization (phase 3) has increased since the beginning of the pandemic. However, there are some businesses whose operations are still mainly carried out on paper or verbally (phase 1), and businesses that are successfully working on digital transformation (phase 4), for example, business model transformation through digitalization, only make up about 10% of the total.

**Fig. 1 Phase of digitalization initiatives**

| Phase 4 (10.2%) | Transforming the business model and improving competitiveness through digitalization  
Example: utilizing data accumulated on the system to expand sales channels and develop new products |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------|
| Phase 3 (46.7%) | Optimizing operations and analyzing data through digitalization  
Example: managing sales, customer, and inventory information with a system and reviewing the workflow |
| Phase 2 (34.9%) | Migrating from an analog to a digital tool-based operational environment  
Example: using digital tools for email and conducting accounting electronically |
| Phase 1 (8.2%)  | Carrying out most operations on paper or verbally (i.e., not promoting digitalization) |

**Fig. 2 Status of digitalization initiatives**

1. **Before the pandemic (2019)**
   
   (n=4,734)  
   4.4% 32.8% 47.5% 15.2%

2. **During the pandemic (2020)**
   
   (n=4,730)  
   6.0% 43.6% 41.3% 9.2%

3. **Present (2021)**
   
   (n=4,718)  
   10.2% 46.7% 34.9% 8.2%

2. The numbers in brackets indicate the percentages of businesses in the respective initiative phases in 2021.

Source: Tokyo Shoko Research, Ltd., “Survey on SME Digitalization and InformationAsset Utilization” (December 2021)

Note: enterprises that said they do not know the status of their digitalization initiatives are excluded.
Businesses tend to feel **individual effects, such as maintenance/improvement of marketing and sales capabilities**, as they advance to higher initiative phases.

Businesses need to keep making progress in their digitalization initiatives toward the ultimate goal of **attaining a phase that will enable them to establish a new business model**.

### Effects of digitalization initiatives by initiative phase

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Phase 4</th>
<th>Phase 3</th>
<th>Phase 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance/improvement of sales and marketing capabilities</td>
<td>57.9%</td>
<td>44.1%</td>
<td>23.5%</td>
</tr>
<tr>
<td>Maintenance/improvement of technological capabilities</td>
<td>36.0%</td>
<td>28.9%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Improved analysis of customer behavior and the market</td>
<td>25.5%</td>
<td>40.8%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Maintenance/improvement of financial base and fund-raising ability</td>
<td>20.0%</td>
<td>25.0%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Response to changes in the market and customers</td>
<td>33.8%</td>
<td>45.6%</td>
<td>19.0%</td>
</tr>
<tr>
<td>High added value provided to products and services</td>
<td>33.3%</td>
<td>21.5%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Maintenance/improvement of new product/service development capabilities</td>
<td>26.8%</td>
<td>13.1%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

*Source: Tokyo Shoko Research, Ltd., “Survey on SME Digitalization and Information Asset Utilization” (December 2021)*

*Notes:*
1. The number of responses are as follows: phase 4 (n = 478), phase 3 (n = 2,161), phase 2 (n = 1,625).
2. The initiative status means the status of digitalization at the time of the questionnaire (2021). Enterprises that said they have not implemented any digitalization initiatives or do not know are excluded.
3. The total is not 100% because it is a multiple answer question.*
In order for business owners to achieve self-transformation, they must **identify their management challenges through dialogue with support organizations**.

To this end, an effective way is for **third-party supporters and support organizations** to **build trust** with business owners, managers, etc., and provide **accompanied support centered around dialogue**.

**Fig. 1** Business owner behavior and accompanied support

**Fig. 2** Five self-transformation hurdles

**Common Foundation: Accompanied Support for Management Capability Restructuring**

- Areas that business owners should work on to improve their management capabilities in an age of uncertainty
  - Financing
  - Capital investment
  - Sales channel development
  - Business revitalization
  - Business succession, etc.

**Focus of conventional accompanied support**

Source: Review Meeting for Accompanied Support (host: Small and Medium Enterprise Agency), "Rebuilding the SME Accompanied Support Model" (March 2022)

Source: Kanto Bureau of Economy, Trade and Industry, "Accompanied Support-Related Initiatives for Regional Core Enterprises by Public-Private Teams" (August 2021)
In order for **SMEs to improve their self-transformation capabilities** in a rapidly changing business environment, they must not only solve management issues but also **accurately identify the challenges** closely associated with their management capabilities.

### Important initiatives SMEs need to implement to achieve self-transformation according to support organizations

![Bar chart showing the top initiatives needed for self-transformation]

- **Development of a detailed action plan for solving management challenges**: 60.0%
- **Identification of management challenges**: 59.6%
- **Development of a shared understanding of management challenges and a challenge-solving mindset in the company**: 41.6%
- **Identification and visualization of the internal environment**: 35.3%
- **Prioritization of management challenges**: 34.0%
- **Identification and visualization of the external environment**: 18.8%
- **Knowledge and experience necessary to solve challenges**: 18.2%
- **Other**: 1.6%

*(n=2,357)*

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Questionnaire on SME Support Organizations’ Understanding of the Realities of SMEs and Small Businesses” (December 2021)

Notes:
1. The total is not 100% because it is a multiple answer question.
2. The questionnaire asked support organizations about the top three important initiatives that SMEs need to implement to be able to identify their challenges and make independent efforts to address those challenges.