

A Numerical Probe into Japanese Business Management

By Naoyuki HARAOKA

THE Ministry of Economy, Trade and Industry (METI) conducts an annual statistical survey, called the “Basic Survey of Japanese Business Structure and Activities,” which aims at looking into corporate activities and acquiring basic corporate data for the ministry’s administrative policies. The survey covers corporations with a workforce of 50 or more and with paid-up capital of ¥30 million or more in a wide range of industries from manufacturing to services. The number of companies covered is around 38,000 every year. The ministry sends survey sheets to the head offices of those corporations by mail. Of the companies surveyed, respondents account for about 30,000, or around 80%, every year. It is useful to collect such basic data on business management as assets, sales, pretax profits, workforce, and subsidiaries and affiliates. Moreover, the survey indicates not short-term but medium-term trends of business management to be mentioned hereafter. It is also useful to learn the direction of structural reform efforts by Japanese corporations. Shown below are some interesting points from the latest survey released in 2008.

The survey covers fiscal 2006 that ended in March 2007. In that year,

sales posted by manufacturing firms totaled ¥310 trillion, rising 6.7% from the previous year for the fifth straight annual increase. Sales by retail businesses rose 5% to ¥73.5 trillion. Both manufacturers and retailers marked the largest sales figures since the launch of the annual survey in 1992. The ratio of pretax profits to sales for manufacturers went up 0.2 percentage point to an all-time high of 6.1%, marking a record for the fourth year in a row. Here are some remarkable trends among indicators considered to reflect Japanese management strategies.

Number of Part-time Workers Rises Sharply

The number of regular workers came to 11.64 million, up 7.1% from fiscal 2005. Of them, permanent employees accounted for 8.09 million, or 69.5%, and part-time workers 3.07 million, or 26.4%. As indicated in *Chart 1*, the share of part-timers in the regular workforce per company is on the rise. Notably, the number of part-timers marked a double-digit increase at manufacturers, showing a 15.2% advance from the year earlier. Meanwhile, the number of temporary workers dis-

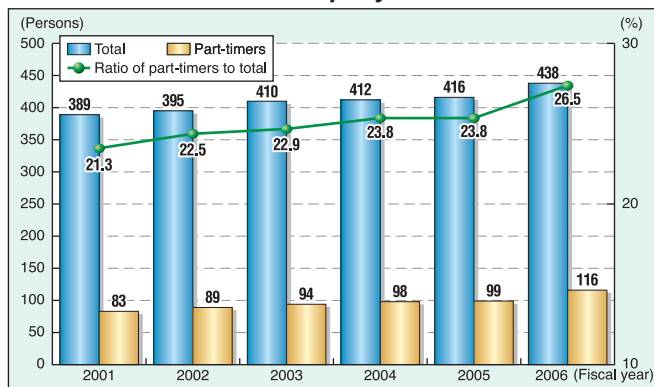
patched to manufacturers from staffing agencies surged 25.9% to 490,000, topping that of part-timers, which was 460,000. *Chart 2* indicates annual increases in the shares of both temporary workers and part-timers in the total workforce at manufacturers. This clearly shows that Japan’s lifetime employment practice is undergoing changes while corporations are improving their profitability remarkably.

“Selection & Consolidation” of Main Activities Progressing

The ratio of main business to sales (sales from main business / total sales × 100) has been on the rise at all the three sectors of manufacturing, wholesale and retail, particularly since fiscal 2001, as indicated in *Chart 3*. This means corporations are continuing to concentrate on their core business activities. The ratio of main business to sales reached 84.2% for manufacturers in fiscal 2006. This indicates manufacturers are particularly active in selecting business fields and concentrating on core business activities.

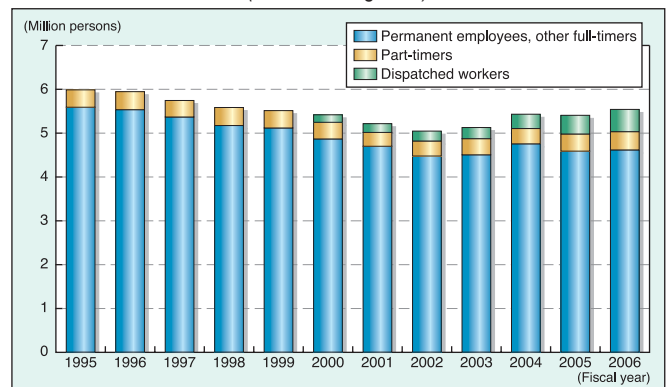
100% Owned Overseas Arms Increasing in Response to Business Globalization

Chart 1 Trends in number of regular employees per company



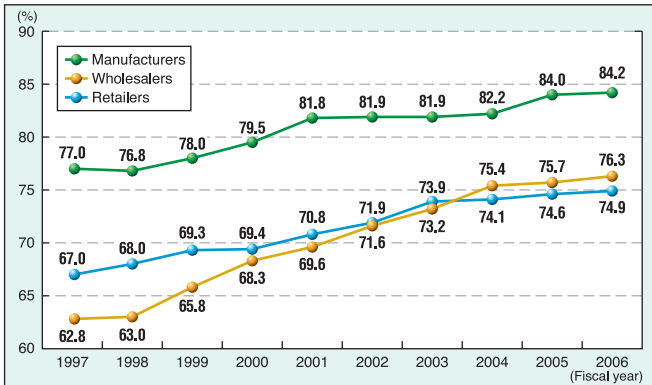
Source: “Basic Survey of Japanese Business Structure and Activities,” METI

Chart 2 Trends in number of workers by employment status (manufacturing firms)



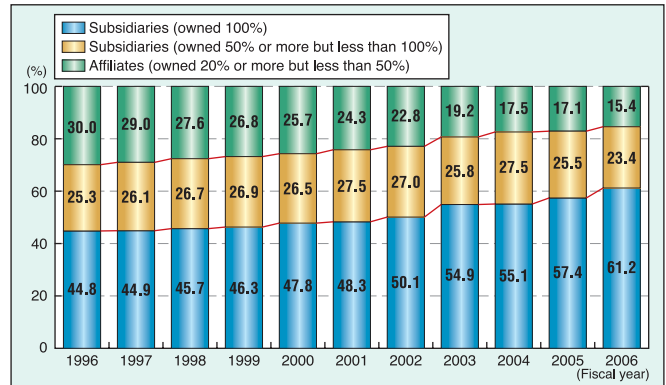
Source: “Basic Survey of Japanese Business Structure and Activities,” METI

Chart 3 Changes in ratio of main business at key industries



Source : "Basic Survey of Japanese Business Structure and Activities," METI

Chart 4 Changes in ratio of shareholdings in overseas subsidiaries of manufacturing firms



Source : "Basic Survey of Japanese Business Structure and Activities," METI

The proportion of overseas production by manufacturers is rising to keep pace with progress in ongoing business globalization. The ratio of their production abroad (sales at overseas subsidiaries / total sales at home and abroad × 100) went up to more than 30% in fiscal 2006 from about 20% a decade earlier. Procurements from Japan by Japanese manufacturers' overseas subsidiaries totaled ¥22 trillion in fiscal 2005, topping the ¥20 trillion mark for the second year running. Notably, procurements by subsidiaries in Asia increased for the third consecutive year. Moreover, sales by overseas subsidiaries, particularly those in Asia, are increasing. Japanese manufacturing firms are increasingly putting emphasis on overseas activities, mainly in Asia. This survey also shows that the number of wholly owned overseas subsidiaries is increasing. *Chart 4* indicates changes in the ratio of manufacturing firms' shareholdings in overseas subsidiaries and affiliates. The chart shows that the share of wholly owned subsidiaries rose to 61.2% in fiscal 2006, representing a significant 16.4-percent-age-point increase from 44.8% a decade earlier. Meanwhile, the number of subsidiaries owned per manufacturer was 5.6 at home and 6.6 overseas.

Technology Trade Balance in Black for 3rd Straight Year

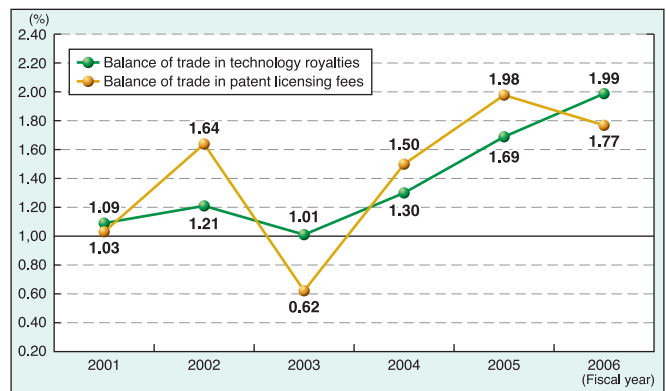
An indicator of corporate originality and capability of independent technological development, as measured by the bal-

ance of technology trade, shows favorable trends. The indicator, the amount of royalties from patents licensed overseas divided by that of patent royalties paid abroad, was 1.77 in fiscal 2006, topping the 1.0 mark (meaning a surplus in the technology trade balance) for the third consecutive year. This indicates that Japanese manufacturers received more patent licensing fees from abroad than they paid for foreign patent licenses. *Chart 5* shows that the technical trade balance as a whole made similar changes as those of the balance of patent trade. This suggests that Japanese companies have been active in their innovation efforts.

Corporate Efforts to Cope with Aging Society

The Japanese population is turning gray very quickly due to the extremely low birthrate and the lengthening span of life. As of 2006, people aged 65 and older accounted for 20.8% of Japan's population. The figure is expected to reach around 40% in 2050. What basic policies are Japanese businesses taking against such a graying society? The METI survey found that corporations

Chart 5 Technology trade balance for manufacturers



Source : "Basic Survey of Japanese Business Structure and Activities," METI

with an age-based retirement system accounted for 97.7% of the total. Of those with a retirement system, 92.6% set the retirement age at 60. But 84.5% of all the business firms surveyed were found to have introduced a reemployment system. A table of progress in their institutional efforts for reemployment shows it is less than 10% of the surveyed firms that have either raised retirement age or abolished the retirement system itself.

As a result of these management efforts, Japanese businesses were able to achieve a gain in profitability, as mentioned at the outset, and a relatively high annual growth rate of 7.1% in labor productivity for the manufacturing sector in fiscal 2006. JS

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